* For identification purpose only

Annual Report 2012

LEE'S PHARM.
李氏大藥廠

Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)

CONTENTS

CORPORATE INFORMATION

STOCK CODE
950

BOARD OF DIRECTORS
Executive Directors
Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee
(Managing Director)
Dr. Li Xiaoyi *(Chief Executive Officer)*

Non-executive Director
Mr. Mauro Bove

Independent Non-executive Directors
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER
Miss Luen Yee Ha, Susanne

PLACE OF BUSINESS IN HONG KONG
Units 110-111, Bio-Informatics Centre,
No. 2 Science Park West Avenue,
Hong Kong Science Park, Shatin,
Hong Kong

REGISTERED OFFICE
P.O. Box 309 GT, Ugland House
South Church Street, George Town,
Grand Cayman, Cayman Islands

COMPANY WEBSITE
www.leespharm.com

AUDIT COMMITTEE
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

AUTHORIZED REPRESENTATIVE
Ms. Lee Siu Fong
Dr. Li Xiaoyi

AUDITORS
HLM CPA LIMITED
Certified Public Accountants

LEGAL ADVISERS
King & Wood Mallesons (Hong Kong law)
Beijing Wuhuan Law Firm (PRC law)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor
Services Limited
Rooms 1712-1716,
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

CORPORATE PROFILE

Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is a research-driven and market-oriented biopharmaceutical group focused on the market of the People's Republic of China (the "PRC" or "China"). Through its wholly owned subsidiary in the PRC, Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke"), the Group develops, manufactures and markets proprietary pharmaceutical products in the PRC. The Group has over 19 years' operation in China's pharmaceutical industry. It is fully integrated with solid infrastructures in drug development, clinical development, regulatory, manufacturing and sales and marketing in China with global perspective and it currently markets twelve products in China. The Group focuses on many different areas such as cardiovascular, dermatology, oncology, gynecology, ophthalmology and others with more than 30 products under different development stages stemming from both internal R&D as well as from the recent acquisition of licensing and distribution rights from various US, Japanese and European companies. The mission of the Group is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

The Group carries out its sales and distribution activities in Hong Kong and China through branch offices in Guangzhou, Shanghai and Beijing with network covering most of the provinces and cities in the PRC, marketing both self-developed products and licensed products from abroad. Zhaoke is the manufacturing plant of the Group located in Hefei, Anhui Province of the PRC, comprising four GMP-compliant workshops for the production of topical gel, lyophilized powder for injection, small volume parenteral solutions and eye gel.

Currently, the Group has the following products in the market:

	Country of origin	Market		Medical application
		PRC	Hong Kong	
Proprietary products:				
*Livaracine®	PRC	✓		Heart & other cardiovascular disease
Yallaferon®	PRC	✓		Viral-infected disease
*Slounase®	PRC	✓		Shortening bleeding time & reducing loss of blood
*Eyprotor®	PRC	✓		Cornea ulcer
License-in products:				
*Carnitene®	Italy	✓		Cardiac disease
Ferplex®	Spain	✓		Sideropenic Anaemias
*Zanidip®	Italy	✓	✓	Hypertension
Aloxi®	France		✓	Prevention of nausea and vomiting associated with emetogenic cancer chemotherapy
Dafnegin®	Italy	✓		Candidiasis
Veloderm®	Italy	✓		Burns and wounds healing
Gaslon N®	Japan	✓		Gastric Ulcer and Gastritis
Brio PTCA Balloon Catheter	Italy	✓		PTCA treatment for cardiovascular disease
Hyalofamme®	Italy	✓		Vaginal dryness of various origin
Unidrox®	Italy		✓	Treatment of urinary tract infections and respiratory tract infections

* *In the National Drug Reimbursement List of the PRC*

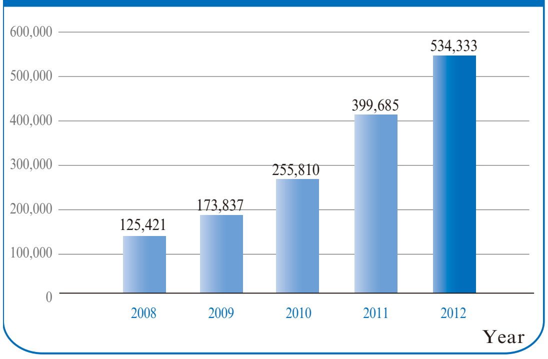
FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

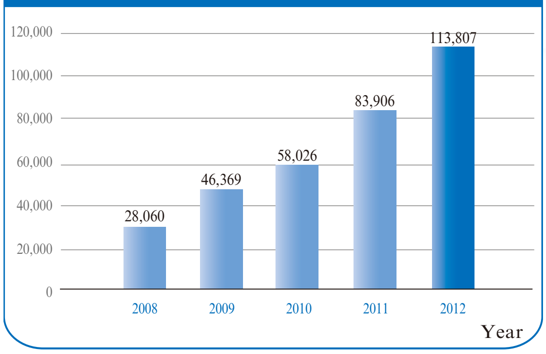
	Financial year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**534,333**	399,685	255,810	173,837	125,421
Profit attributable to shareholders of the Company	**113,807**	83,906	58,026	46,369	28,060
Equity attributable to shareholders of the Company	**582,156**	311,914	241,064	144,730	85,335
	HK cents	HK cents	HK cents	HK cents	HK cents
Basic earnings per share	**22.82**	17.90	12.80	10.85	6.77
Interim dividend per share	**1.8**	1.2	1.0	0.8	0.5
Final dividend per share	**4.0**	3.0	2.0	1.6	1.1
	5.8	4.2	3.0	2.4	1.6
Dividend payout ratio	**25.4%**	23.5%	23.4%	22.1%	23.6%

FINANCIAL HIGHLIGHTS

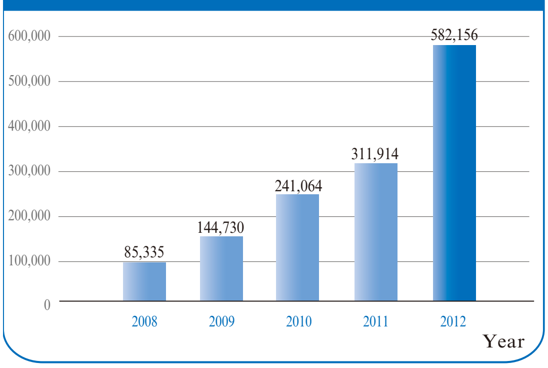
Turnover Of The Group (HK$'000)



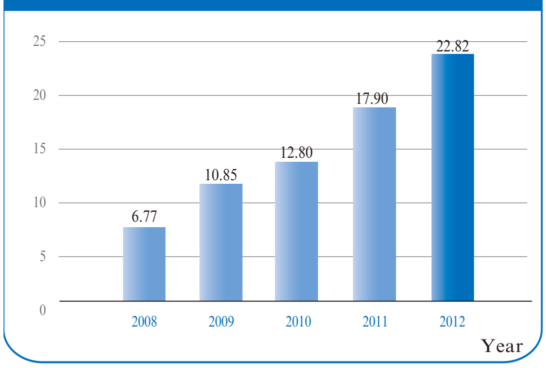
Profit Attributable To Shareholders Of The Company (HK$'000)



Equity Attributable To Shareholders Of The Company (HK$'000)



Basic Earnings Per Share (HK cents)



FINANCIAL SUMMARY

The following is a summary of the published consolidated results and of the assets and liabilities of the Group:

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**534,333**	399,685	255,810	173,837	125,421
Cost of sales	**(153,498)**	(107,852)	(77,320)	(49,262)	(36,779)
Gross profit	**380,835**	291,833	178,490	124,575	88,642
Other revenue	**12,385**	12,322	5,770	4,911	1,482
Selling and distribution expenses	**(179,512)**	(156,437)	(79,193)	(47,842)	(36,983)
Research and development expenses	**(16,304)**	(11,835)	(5,590)	(5,686)	(2,101)
Administrative expenses	**(63,042)**	(37,090)	(29,299)	(22,486)	(19,954)
Profit from operations	**134,362**	98,793	70,178	53,472	31,086
Share of results of associates	**–**	(273)	(1,159)	–	–
Finance costs	**(1,192)**	(768)	(1,058)	(689)	(505)
Profit before taxation	**133,170**	97,752	67,961	52,783	30,581
Taxation	**(20,104)**	(13,728)	(10,039)	(6,414)	(2,521)
Profit for the year	**113,066**	84,024	57,922	46,369	28,060
Attributable to:					
Shareholders of the Company	**113,807**	83,906	58,026	46,369	28,060
Non-controlling interests	**(741)**	118	(104)	–	–
	113,066	84,024	57,922	46,369	28,060

FINANCIAL POSITION

	31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**284,687**	154,179	105,343	89,515	51,236
Current assets	**511,844**	255,897	206,370	119,051	56,674
Current liabilities	**(172,689)**	(83,497)	(61,021)	(59,175)	(20,768)
Net current assets	**339,155**	172,400	145,349	59,876	35,906
Non-current liabilities	**(30,563)**	(14,248)	(9,344)	(4,661)	(1,807)
Net assets	**593,279**	312,331	241,348	144,730	85,335
Equity attributable to shareholders of the Company	**582,156**	311,914	241,064	144,730	85,335
Non-controlling interests	**11,123**	417	284	–	–
	593,279	312,331	241,348	144,730	85,335

CHAIRMAN'S STATEMENT

I am pleased to present the record breaking results of the Group for the year 2012 that have extended the run of 25% plus growth in both turnover and profit to seven year in a row. The brisk pace of profit growth took the tally for the year to HK$113,807,000, surpassing the HK$100 million mark for the first time while turnover reached a new height of HK$534,333,000. The delightful results were achieved against a backdrop of uncertainty and adjustment in the market place. With resolute and resilient of everyone in the Group, we have turned the adversity into opportunity. As a result, for the second consecutive year, the Group was ranked by Forbes as one of Asia's 200 Best Under A Billion Company. This award is indicative of the recognition and appreciation of the Group's accomplishment by its peers and marks a successful culmination of Group's memorable celebration of the tenth anniversary of its listing on the Hong Kong Stock Exchange.

2012 was also a pivotal year for the Group as it inaugurated a new 10 year journey to strengthen itself into a formidable specialty pharmaceutical company in China. New energy and vigorousness were injected by bringing more professionals and new management system into the managing team, making it more effective and efficient. Efforts were also made to heighten the responsibility and accountability of members of its managing team, fostering a positive aura in which there is no tolerance for complacency and team work is championed.

Sales momentum of the Group continued with a pace exceeding industry average. Despite a challenging environment, the Group's major products outperformed its competitors in 2012 with improved market shares. This was the result of the Group's implacable drive to "brand building", focusing on differentiation pertained to product quality and service. While the Group continued to expand its sales and marketing force, it has also undertaken endeavor to put quality ahead of quantity, making competitiveness as its priority.

The Group revamped its quality assurance system as well in 2012 through restructuring its quality department. New management team was installed with seasoned personnel recruited from inside and outside of the company. Notable progress has since been made in the Group's quality assurance system that boosts the market confidence in its products. For the year, the Group significantly increased its production output without any quality incidence. As the Group is gearing up for implement of new GMP standards in China, the upgraded quality assurance system, together with the newly erected production facility, position the Group well to remain competitive in the market place.

The Group had an outstanding year in research and development in 2012, epitomized by the advancement of its two key programs, namely Anfibatide and JX-594. In July 2012, the first patient was enrolled in a Phase Ib-IIa clinical trial of its first-in-class anti-platelet drug *Declotana*® (Anfibatide) in patients with acute coronary syndrome (ACS). Global Phase IIb study of JX-594 in treatment of liver cancer was also well underway. Both products

CHAIRMAN'S STATEMENT

are proprietary and are targeting highly unmet medical needs. In additional, the Group has licensed four Phase II enabling products from US and European partners in the year, augmenting its development pipeline to 12 products, all proprietary in nature. The Group's pursuit of scientific excellence was acknowledged by winning two prestige awards. The Group won the 2012 Hong Kong Awards for Industries: Technology Achievement Award in respect of its first-in-class anti-platelet drug *Declotana*® (Anfibatide). As a first-in-class drug, *Declotana*® is the first platelet Ib antagonist to complete human phase I study and to start Phase II study. The self-developed drug *Slounase*®, has also been designated by The Ministry of Science and Technology of the PRC as the "2012 National Key New Product".

In the corporate front, 2012 was a prolific year. At the Group level, we enlarged our shareholders base by placing new shares to a reputed China private equity fund, enabling the company to access to the new shareholder's unique knowledge, network, experiences and perspective in the industry. At the subsidiary level, the Group partnered with a US blue chip venture capital, creating a joint venture devoted to cardiovascular drug development. Those efforts are aimed to facilitate and accelerate the development of the Group's pipeline.

The Group is embarking on a new 10 year journey to build a stronger specialty pharmaceutical company in China. The unchartered water could be rough and choppy. However, we remain confident that we can not only meet the challenge head on, but also rise above it. The expected erection of new production facility in both Hefei and Guangzhou and the likely approval of several new products in 2013 will serve as catalyst for sustainable growth in future. The commitment to research and development will be the compass to guide the company to prolong success.

Last but not least, I want to express my heartfelt thanks to the board, management and every member of staff for their ongoing dedication and contribution, and our customers, banks, suppliers, shareholder and partners for their continuing support.

Lee Siu Fong
Chairman

Hong Kong, 20 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Amid uncertainty and adjustment faced by the industry in 2012, the Group managed to turn adversity into opportunity. Not only it continued its growth momentum, but also reinvigorated itself by restructuring its sales and marketing management system and accelerating corporate development, providing new catalyst for sustainable growth.

Turnover and Profit

Turnover for the year ended 31 December 2012 amounted to HK$534,333,000, which represented a significant increase of 33.7% compared with same period last year. The growth was driven by strong demand for our five leading products of our Group with sales of *Livaracine*®, *Ferplex*®, *Carnitene*®, *Slounase*® and *Yallaferon*® for the year 2012 grew by 50%, 47%, 37%, 22% and 13% respectively compared with same period last year. It is encouraging to see that growth of *Livaracine*® picked up steam again in 2012, completing a turnaround from a flat 2011.

Selling expenses to turnover ratio continued to drop to 31.5% for the fourth quarter of 2012 due to relentless effort of management to control the selling expenses and to improve the efficiency and effectiveness of the Group's sales and marketing organization. Selling expense to turnover ratio for the year 2012 was 33.6%, represented a drop of 5.5 percentage points compared with the ratio of 39.14% for the year 2011.

Net profit attributable to shareholders for the year 2012 reached a new level of HK$113,807,000, representing an increase of 35.6% over last year. The net profit margin for the year 2012 was 21.3%, represented a slight improvement compared with 21.0% for the year 2011.

The Group's stellar performance and its commitment to innovation have continued to be recognized by its peer in the industry and the governments. For second year in a row, the Group was selected by Forbes Asia as one of the top 200 companies in Asia Pacific with revenue under a billion US dollar. With this achievement, the Group has joined an elite group of companies that perform consistently to deliver return to its shareholders.

Quality System, Production and Manufacturing facility

In preparation for the implementation of China's new GMP standard, the Group revamped its quality assurance system through restructuring its quality department, making it more reliable and dependable. With an improved quality assurance system, the Group significantly increased its production output without any quality incidence for the year. With the construction of a new manufacturing facility in Hefei that is built in accordance with the China SFDA's new cGMP requirements and will be in full operation by end of 2013, the Group is in an auspicious position to remain competitive in the market place.

MANAGEMENT DISCUSSION AND ANALYSIS

The construction work of the Group's new site in Nansha, Guangzhou will be completed in mid of 2013 and it will serve as the Group's hubs for research and development, logistic and manufacturing in China. The availability of new production facilities will considerably enhance the Group's production capability and capacity and it will also enable the Group to produce and export finished products to major pharmaceutical markets in the US and Europe in future.

Powder Pharmaceutical Incorporated ("PPI"), a company of which approximately 16% of its issued capital is held by the Group, successfully made a submission to US FDA for approval of the production of *Zingo*® in the new Hong Kong manufacturing facility. *Zingo*® is a FDA approved, needle-less, painless, fast, Lidocaine powder injection system that provides local analgesia for children age 3 and over as well as adults prior to venipuncture and intravenous cannulation. In December 2009, PPI acquired the entire assets of *Zingo*® franchise and moved the production facility to Hong Kong. PPI has since worked diligently to establish the new site according to FDA requirements. The submission in October 2012 has initiated the process of certification for the new manufacturing facility in Hong Kong by US FDA. The successful completion of this process will ensure the relaunch of *Zingo*® in US market. The representative from US FDA has reviewed the Hong Kong production facility and upon further submission of document and completion of modification work by PPI, the directors are confident that approval will be granted by US FDA soon.

Drug development

The Group had an outstanding year in research and development in 2012, epitomized by the advancement of its two key programs, namely Anfibatide and JX-594 and by the establishment of Research and Development Centre for New Drugs. In July 2012, the first patient has been enrolled in a Phase Ib-IIa clinical trial of its first-in-class anti-platelet drug *Declotana*® (Anfibatide) in patients with acute coronary syndrome (ACS). As a first-in-class drug, *Declotana*® is the first platelet Ib antagonist to complete human phase I study and to start Phase II study. *Declotana*® represents a novel therapeutic mechanism and may advance the treatment of acute coronary syndrome and percutaneous coronary intervention. As now, the completion of the first cohort enrollment is expected by end of March 2013. Global Phase IIb study of JX-594 in treatment of liver cancer was initiated in mid 2012 and has since reached 50% enrollment target. JX-594 is a proprietary, engineered oncolytic virus developed by Jennerex that is designed to selectively target and destroy cancer cells. Results of the phase IIa study on late stage HCC patients has just been published in latest Nature Medicine, a prestige peer review medical journal.

MANAGEMENT DISCUSSION AND ANALYSIS

The inauguration of new research and development centre signifies the Group's commitment to new drugs development. During the period, the Group also realigned its priority in drug development by focusing on 12 proprietary programs that address highly unmet medical needs in five therapeutics areas such as cardiovascular, oncology, gynecology, dermatology and ophthalmology.

The assiduous effort of the clinical development team in the last three years has brought about a successful completion of its Phase III clinical study of *Carnitene®* (L-Carnitine Injection) on chronic heart failure patients with acute episode. Preliminary analysis demonstrated that the trial has met its primary endpoint. For the first time in China, strong evidence is generated to support and substantiate the clinical benefit of L-Carnitine as a metabolic intervention agent in treatment of heart failure. The Group has submited the new indication application to the China SFDA to further differentiate *Carnitene®* from its competitors.

The Group's commitment to innovation has been recognized by its peers, highlighted by the winning of two prestige technology award. The Group won the 2012 Hong Kong Awards for Industries: Technology Achievement Award in respect of its first-in-class anti-platelet drug *Declotana®* (Anfibatide). The award is one of the most highly regarded honors in Hong Kong for technology-based enterprises. It represented distinguished recognition for the effort of the Group in technology innovation. In August, the self-developed drug *Slounase®*, has also been designated by The Ministry of Science and Technology of the PRC as the "2012 National Key New Product". *Slounase®* is the first pharmaceuticals being selected as National Key New Product in Anhui province. The award is recognition of the Group's capability in research and development of new drug and testimony to the product's quality and therapeutic potential. The designation is a prestige honor in China and will enhance *Slounase®* 's competitiveness in the market place.

Imported products registration

Hyalofemme®, a medical device for vaginal dryness of various origin, received marketing approval from China SFDA in January 2012 and it has been launched since the third quarter of 2012. Results of the clinical study carried out by the Group in China has shown that *Hyalofemme®* is as effective as hormone replacement therapy in alleviating symptoms but devoid of unwanted side effects caused by hormone. The product will provide alternative option to help improve the quality of life for woman suffered from vaginal dryness.

MANAGEMENT DISCUSSION AND ANALYSIS

In March 2012, the Group also received approval to conduct registration study of Prulifloxacin for the treatment of respiratory tract and urinary tract infections. The clinical study is underway now and is expected to complete early next year.

The registration study for Trazodone has progressed right on target with more than four fifth of patients being enrolled. Patient enrollment is targeted to finish before end of April and filing to China SFDA for marketing authorization is scheduled to be made before the end of third quarter of 2013.

The applications of Imported Drug License of other five products have been under review during the year. The process is moving forward with positive discussions and interactions with the China SFDA. Approvals for some of those products are expected in 2013.

International partnerships

In the first quarter of 2012, the Group entered into a definitive licensing and development agreement with PLx Pharma, a privately held US biotechnology company. Under the agreement, the Group will develop, manufacture and market a GI safer Aspirin in China for the prevention of cardiovascular diseases. PLx Pharma has submitted the NDA of this product to US FDA and the application is currently under active review. Aspirin is widely used for prevention of stroke and heart attack for patients who are considered with higher risk. However, unwanted GI effect has been a deterrent for wider use of the product. A GI safer Aspirin could potentially expand the clinical benefits offered by this proven product, including the prevention of cancer.

The Group acquired a license from RegeneRx Biopharmaceuticals, Inc., a public traded biotechnology company in US for the development and selling of Thymosin Beta 4. One of the Group's growing focused areas is ophthalmology. Currently, the Group has one product *Eyprotor®* launched into the market in China and several products are under development. The Group's ophthalmology products are positioned to treat eye problem with significant unmet medical needs that include dry eye, cornea ulcer, uveitis and glaucoma, etc. The entering into of the license agreement will expand the variety of the type of products the Group offers and help the building of an ophthalmology franchise.

During the year, the Group also expanded its partnership with Sigma-Tau by licensing three phase II enabling assets from them for China development. Both Rostafuroxin and Istaroxime are targeting cardiovascular diseases while Gimatecan is chemotherapy agent that has demonstrated good efficacy against malignancy such as ovarian cancer.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales and marketing

In spite of a challenging environment pertained to price cut and adjustment in distribution system, the Group's major products, driven by strengthening the sales force and intensifying the knowledge-based promotion campaign, outperformed its competitors in 2012 with improved market shares.

The building of the Group's direct sales force entered second year with steady improvement. While the Group continued to expand its sales force, it has also undertaken an endeavor to put quality ahead of quantity, making competitiveness as its priority. Compared with 2011, the number of medical representatives for 2012 remained unchanged but the direct sales for 2012 increased 35% over last year and contributed to 15% of the overall turnover. On the other hand, the extensive distributor network of the Group was put to the test in 2012. The change of government policy regarding pharmaceutical distribution demanded adjustment and adaptation for both the distributors and the Group's sales force. A slew of actions were taken to proactively help the distributors transform themselves and improve their competitiveness in the market place.

The change in the industry also commanded knowledge-based promotion to more prominent level. In its implacable drive to "brand building", the Group focused on differentiation pertained to product quality and service in the market place. Through participation in major medical conferences such as "Great Wall Cardiovascular Conference" and organization of Sino-Foreign medical seminar tour and training programs, the Group highlighted the scientific evidence behind its products and underlined its commitment to product quality. In addition, the Group is a fervent disciple of evidence-based medicine and has continued to invest in clinical study for launched products. Having completed the *Yallaferon®* study, the Group initiated and completed a clinical study on *Zanidip®*, an anti-hypertension drug licensed from Recordati of Italy. The trial was a multicentre, randomized and comparator controlled study with a targeted enrollment of 318 patients. The study results are expected in the second quarter of 2013 that could shed lights on the drug's efficacy and safety profile in Chinese patients, providing better guidance for doctors' prescription of the product. The Group has also partnered with China Hypertension League as a major sponsor to their 5000 patients Sino-Europe hypertension study. This landmark study will run for four years with an aim to understand the relationship between control of blood pressure and clinical outcomes such as stroke and heart attack. The study could deepen our understanding of hypertension and change the paradigm of hypertension management.

The devotion to knowledge-based promotion and evidence-based medicine positions the Group as a valued partner to the medical community in China for addressing unmet medical needs.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Development

The Group also had a prolific year in corporate development front in 2012. At the Group level, it issued 48,485,000 ordinary shares by placement to a reputable private equity fund in China. The net proceeds of placement of amount of HK$152 million will be used for general working capital to improve the existing business and future investment purposes of the Group. More importantly, the partnership allows the company's access to the new shareholder's unique knowledge, experiences, network and perspective in the industry.

A new subsidiary, CVie Therapeutics Company Limited ("CVie"), also formed in 2012 with a blue chip US venture fund which provided US$4,000,000 capital fund for the development of two license-in drugs Rostafuroxin and Istaroxime. The establishment of CVie, a cardiovascular focused drug development company, highlights the group's commitment to new drug development. Rostafuroxin and Istaroxime are proprietary drugs under phase II development and targeted significant unmet medical needs in the areas of hypertension and acute heart failure. Particularly, Rostafuroxin is the first anti-hypertensive agent that employs pharmacogenomic approach for personalized treatment of hypertension. Such effort is aimed to accelerate the development of the Group's robust pipeline.

Internally, the Group recruited aggressively to better cope with the expansion and bring new energy into the company. Both Dr. Bianchi and Dr. Lau had joined the company as Chief Scientific Officer and Senior Director for Development. Together, they bring more than 50 years of experiences and multitude of knowledge in new drug development into the Group. Two other senior executives were also enlisted by the company to head both corporate development and human resources, reshaping the management team with professionalism and heightening responsibility and accountability.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2012 was HK$534,333,000, representing increase of HK$134,648,000 or 33.7% over last year. The growth was mainly contributed by *Carnitene*®, *Livaracine*®, *Slounase*® and *Ferplex*®.

Profit attributable to shareholders reached HK$113,807,000 for the year 2012, an increase of 35.6% compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit Margin

Gross profit margin for the year 2012 was 71.3%, represented a drop of 1.7 percentage point compared with gross profit margin of 73% for last year. The drop was mainly driven by the increase in production cost for in-house products.

Administrative Expenses

Administrative expense for the year 2012 increased by 70% compared with last year to HK$63,042,000. It was mainly attributable not only to increase in employee head count and staff cost to cope with the increase in volume of transaction, but also higher cost for recruiting seasoned executives. The additional retirement benefit provided to executive directors also accounted for the increase.

Selling and Distribution Expenses

Selling and distribution expenses to turnover ratio for the year 2012 was 33.6%, represented a decrease of 5.5 percentage points compared with 39.1% for that of previous year. The stringent effort of the management to control selling expenses and improve efficiency and effectiveness of sales and marketing organization caused the drop in ratio.

Liquidity and Financial Resources

As at 31 December 2012, the Group had cash and bank balances and pledged bank deposits of approximately HK$335.9 million (31 December 2011: HK$136.5 million). In terms of liquidity, the current ratio (current assets/current liabilities) was about 2.96 times (31 December 2011: 3.06 times). As at 31 December 2012, the Group had bank and other borrowings of approximately HK$31.5 million and equity attributable to shareholders of the Company of approximately HK$582.16 million. Its gearing ratio calculated based on the net borrowings (after deducting cash and bank balances) to equity attributable to shareholders of the Company, was nil as at 31 December 2012 and 31 December 2011. Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in future.

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro, Japanese Yen and US dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group may use forward contracts to hedge against foreign currency fluctuations.

Charges on Group Assets

As at 31 December 2012, the Group has pledged bank deposit of HK$2,000,000 (2011: HK$2,002,951) to secure general banking facilities granted to the Group.

In addition, the Group's obligations under finance leases are secured by the lessors' title to the motor vehicle, which have a carrying amount of HK$1,533,531 (2011:HK$1,731,256).

Contingent Liabilities

As at 31 December 2012, the Group had no contingent liabilities

Employee Information

As at 31 December 2012, the Group had 531 employees (2011: 498 employees) working in Hong Kong and in the PRC. Total employee remuneration, including directors remunerations, retirement benefit provision and mandatory provident fund contributions, for the year under review amounted to approximately HK$88.18 million (2011: HK$58.01 million).

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme, retirement benefit scheme and medical insurance, employees share options are also awarded to employees according to the assessment of individual performance.

PROSPECTS

The Group remains upbeat on its prospect and is enthralled to deliver better return to its shareholders in the future.

With the last round of price cut in early January 2013, at least for the time being, one of the uncertainty rattled the pharmaceutical industry in 2012 has been lifted. The confusion caused by adjustment and adaptation of industry to the new regulations regarding distribution has also more or less been ebbed. The auspicious market conditions could accelerate the growth of the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The hospital traffics in China keep marching upward and the demand for pharmaceuticals in the hospital level remain strong. The healthcare industry is expected to attain high double digit growth in the next ten years. Certain diseases such as acute cardiovascular syndrome and malignancy have become more prevalent and significant medical needs remain unmet.

The adoption of new GMP standard mandated by the China SFDA will also alter the landscape of the industry. The new stringent requirements in production and quality system will facilitate the consolidation of industry and favor player that is strong and able to invest in maintaining competitiveness in the market place.

It is also expected that a majority of provinces will start a new round of tender process in the next 6 to 9 months, providing opportunity for newly launch products. As six of the Group's 12 products have been launched less than three years, the availability of the tender participation will facilitate the market penetration for the newer products and serve as catalyst for future growth.

Several of the Group's products are under final review for Imported Drug License application. It is expected some of them be approved in the near future. The imminent approval may not have instant revenue impact, but could create excitement in the market place for both new and existing products of the Group.

Both external and internal conditions for the industry are propitious in the near future that could propel the Group's development to a new height.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, aged 56

Ms. Lee Siu Fong ("Ms. Lee") joined the Group in April 1997 and has since been responsible for the Group's financial affairs. Ms. Lee is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. Ms. Lee is the sister of Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi.

Leelalertsuphakun Wanee

Managing Director, Chief Marketing & Sales Officer & member of remuneration committee, aged 59

Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun") joined the Group in April 1997. In September 2003, Ms. Leelalertsuphakun was appointed the Chief Marketing & Sales Officer and is responsible for the Group's sales and marketing activities. Ms. Leelalertsuphakun is the sister of Ms. Lee and Dr. Li Xiaoyi.

Li Xiaoyi

Chief Executive Officer & Chief Technical Officer, aged 50, PhD

Dr. Li Xiao Yi ("Dr. Li") holds a Ph.D. of Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Warner-Lambert, a major pharmaceutical company. He is the founder of the Group and has been responsible for the daily operation and research and development of the Group since 1994. Dr. Li is the brother of Ms. Lee and Ms. Leelalertsuphakun.

NON-EXECUTIVE DIRECTOR

Mauro Bove, *aged 58*

Mr. Mauro Bove ("Mr. Bove") joined the Group on 9 May 2005. He obtained his law degree at the University of Parma, Italy, in 1980 and has more than thirty years of business and management experience within the pharmaceutical industry. Mr. Bove has served in a number of senior positions in business, licensing, M&A and corporate development within Sigma-Tau, one of the leading Italian pharmaceutical groups. He presently heads the corporate and business development department at Sigma-Tau Finanziaria S.p.A., the holding company of Sigma-Tau Group. Mr. Bove is also a board member of several private and public companies, both in Europe and in the U.S. He is connected with Defiante Farmaceutica S.A. ("Defiante"), a substantial shareholder of the Company as Defiante is a company belonging to Sigma-Tau Group. Save as disclosed above, he is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company (within the meaning of the Listing Rules).

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Independent non-executive Director, chairman of audit committee & member of remuneration committee, aged 50, PhD, MBA, BBA, CFA, MHKSI

Dr. Chan Yau Ching, Bob ("Dr. Chan") joined the independent Board on 14 January 2002. Dr. Chan has extensive experience in corporate development and financial management of high-growth companies. Dr. Chan had been a finance professor, researcher and consultant. He had also served directorship at various listed and privately held companies in Hong Kong and in the United States. Currently Dr. Chan is Executive Director and Deputy Chief Executive Officer of Celestial Asia Securities Holdings Limited, a listed company in Hong Kong. Dr. Chan does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Lam Yat Cheong

Independent non-executive Director & member of audit committee, aged 51, CPA(Practising),FCCA, BBA

Mr. Lam Yat Cheong ("Mr. Lam") joined the independent Board on 1 July 2004. Mr. Lam is a sole proprietor of an audit firm and has over 25 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Lam is also an independent non-executive director of Perfectech International Holdings Limited and Wuyi International Pharmaceutical Company Limited, both of the companies are listed in Hong Kong. Mr. Lam does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Tsim Wah Keung, Karl

Independent non-executive Director, chairman of remuneration committee and member of audit committee, aged 54, PhD, MPhil, BSc

Dr. Tsim Wah Keung, Karl ("Dr. Tsim"), joined the independent Board on 20 September 2004. Dr. Tsim currently serves as Professor of Life Science at the Hong Kong University of Science and Technology. He holds a Bachelor of Science degree and a Master degree in Biochemistry from the Chinese University of Hong Kong, and a Doctorate in Molecular Neurobiology from the University of Cambridge. Dr. Tsim has published numerous articles in biological sciences and traditional Chinese medicines. He also serves in several local committee in advising the development of traditional Chinese medicine as health food products. Dr. Tsim does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Chen Yueshen

Chief Operating Officer, aged 54

Mr. Chen Yueshen has been working for the Group for more than 15 years as the Director and Deputy General Manager of Zhaoke Pharmaceutical (Hefei) Co. Ltd ("Zhaoke"), a wholly-owned subsidiary of the Company. He is responsible for the daily operation of Zhaoke, including being responsible for the production and quality management of Zhaoke. He has extensive experience in quality management systems and GMP production. He has been appointed as Chief Operating Officer of the Group since 2012.

Jiao Zhongyu

Chief Officer of Enterprise Development Department of the Group, aged 43

Mr. Jiao Zhongyu is responsible for the government affair and legal affairs of the Group in the PRC. Mr. Jiao was appointed as the legal advisor of PRC investment by the Group in 1999 in his capacity as a practicing lawyer in PRC. Mr. Jiao has been appointed as the director of Zhaoke Pharmaceutical (Hefei) Co. Ltd since 2010 and has extensive experience in the government affair and legal affairs. In 2012, the Group established the Enterprise Development Department and Mr. Jiao has been appointed as the Director of the department, responsible for the Group's strategic planning and development.

Dr. Lit-Fui Lau

General Manager of Shanghai branch of Zhaoke, aged 50, Ph.D

Dr. Lau holds the Ph.D. from the University of Connecticut Health Center. Before joining the Group, he served as the Associate Director for the American GlaxoSmithKline R&D China, and had been responsible for the research and development of new drugs for nearly 20 years. He has extensive experience in management of the research and development of new drugs. He joined the Group in 2012 as the General Manager of Shanghai branch of Zhaoke and is responsible for the business development of East China region. He also has been appointed as the Senior Director of Development of CVie Therapeutics Company Limited, a subsidiary of the Group, and is responsible for the management of the research and development of drugs.

Zhang Guohui

Director of the Group's Research and Development Centre, MBA, BSc

Mr. Zhang Guohui has been working in Zhaoke for more than 15 years. He is responsible for the research and development of new drugs, production control and GMP management. He has extensive experience in the research and development and registration of new drugs and technology project management. The R&D centre of the Group was established in 2012, and Mr. Zhang has served as the Director responsible for new drug preclinical studies and clinical research, the additional development of launched products, drug registration affairs, science and technology project reporting and monitoring work of adverse drug reactions.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Luen Yee Ha, Susanne

Chief Financial Officer & Company Secretary, FCCA, FCPA, MAIA

Miss Luen Yee Ha, Susanne joined the Group in June 2005 and is responsible for financial management, reporting and company secretarial matters. She has extensive experience in auditing, accounting and financial fields and has held senior positions in listed companies prior to joining the Group. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and holds a Master degree in International Accounting from City University of Hong Kong.

Victor Tsui

Chief Manufacturing Officer, Licensed Professional Engineer, aged 46, P.E. MSc

Mr. Tsui graduated from The Hong Kong Polytechnics University and University of Wisconsin with a master degree in Engineering. Before joining the Group, he worked for various pharmaceuticals companies in the U.S. for over 20 years and was responsible for production management. He joined the Group in 2009 as Chief Operating Officer of Powder Pharmaceuticals Incorporated. He has been appointed as Chief Manufacturing Officer of the Group since 2012 to oversee the Group's manufacturing operation.

Li Dingwen

Director of Human Resources in China, aged 53, MBA, MIA

Mr. Li joined the Group in December 2012 and is responsible for the Group's human resources management in PRC. He has extensive experience in the management of human resources and in the operational management of pharmaceutical companies. Prior to joining the Group, he had been responsible for human resource management and operational management in large PRC pharmaceutical companies for more than 30 years.

Yang Zhongqiang

Manager of the Quality Control Department, aged 38

Mr. Yang Zhongqiang holds a master's degree in Pharmaceutical Engineering of Shandong University and has a practicing pharmacist certification. He has been working for the Group for more than 15 years, and has been working in the Department of Research and Development of New Drugs and Quality Department of Zhaoke. He has extensive experience in the research and development of new drug, project management and quality management. He has been appointed as the quality authorised person of Zhaoke since 2012 to oversee the company's drug quality management and protection works.

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 49.

An interim dividend of HK$0.018 (2011: HK$0.012) per share, amounting to HK$9,357,000 was paid to shareholders on 18 October 2012.

The Board of Directors recommended a final dividend of HK$0.04 (2011: HK$0.03) per share to shareholders registered in the Company's Register of Members as at the close of business on 23 May 2013. Upon approval by shareholders, the final dividend will be paid on or about 13 June 2013.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 6 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year together with the reasons therefore, are set out in notes 30 and 40 to the consolidated financial statements.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

CHARITABLE DONATION

Charitable donation made by the Group during the year amounted to HK$318,088 (2011: HK$276,700).

RESERVES

Details of the movements in the reserves of the Company during the year are set out in note 32 to the consolidated financial statements. Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$295.46 million. This includes the Company's share premium in the amount of HK$260.66 million at 31 December 2012, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 17.75% in aggregate for the Group's total turnover for the year (2011: 20.22%).

Purchase from the Group's five largest suppliers accounted for approximately 85.26% in aggregate for the Group's total purchases for the year (2011: 86.32%). The largest supplier of the Group accounted for approximately 39.03% of the Group's total purchases (2011: 42.57%).

Apart from as disclosed under the paragraph headed "Continuing Connected Transactions" below, none of the Directors, their associates (as defined in the Listing Rules) or any shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:
Lee Siu Fong
Leelalertsuphakun Wanee
Li Xiaoyi

Non-executive director
Mauro Bove

Independent non-executive directors:
Chan Yau Ching, Bob
Lam Yat Cheong
Tsim Wah Keung, Karl

In accordance with Article 95 and 112 of the Company's Articles of Association, Ms. Leelalertsuphakun Wanee, Dr. Chan Yau Ching, Bob and Dr. Tsim Wah Keung, Karl will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Company or any of its subsidiaries to which any of the directors was a party and in which any of the Directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year under review.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Lee Siu Fong ("Ms. Lee") and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun) has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing. In accordance with the supplemental agreements dated 1 January 2012, monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$144,837 and HK$199,300 respectively. On 1 January 2013, the monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$167,576 and HK$230,590 respectively.

Dr. Li Xiaoyi ("Dr. Li") has service contract with the Company since 1 September 2003 and after that the contract has been renewed. In accordance with the fifth supplemental agreement dated 1 January 2012, monthly salaries and allowance has been revised to HK$275,290. On 1 January 2013, the monthly salaries and allowance has been revised to HK$318,511. Both the Company and Dr. Li shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee and Ms. Leelalertsuphakun and Dr. Li together, holding less than 30% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Executive directors of the Company are Ms. Lee, Ms. Leelalertsuphakun and Dr. Li. In accordance with supplementary agreement dated 1 January 2012 signed between the Company and each of the executive directors, employment terms of executive directors have been revised as follows:–

1. Executive directors are entitled to annual management bonus 1.5% to 3.5% (determined based on the growth in net profits of the Group) on the net profit of the Group for the preceding financial year. Such sum of the management bonus will be shared between all the executive directors in such proportion with reference to their monthly salary in the final month of the complete financial year.

2. The annual salary increment shall be equal to official inflation rate if the growth in net profits of the Group is equal to or less than 15%, or should the growth exceed 15%, the sum of the official inflation rate and half of the positive difference between the growth in net profits and the 15% threshold.

REPORT OF THE DIRECTORS

3. Each of executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Company for certain years.

Each of Mr. Lam Yat Cheong ("Mr. Lam") and Dr. Tsim Wah Keung, Karl ("Dr. Tsim") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive director. Contract with Mr. Lam and Dr. Tsim has been renewed for three years from 1 July 2010 and 20 September 2010 respectively. Director's fee is HK$60,000 per annum and bonus will not be paid for each of the directors.

Dr. Chan Yau Ching, Bob has a three-year service contract with the Company from 12 October 2007 and the contract has been renewed for three years from 12 October 2010. Director's fee is HK$60,000 per annum and bonus will not be paid.

Mr. Mauro Bove has a three-year service contract with the Company from 3 January 2009 and the contract has been renewed for three years from 3 January 2012. Director's fee been increased from HK$75,000 per annum to HK$ 100,000 per annum in accordance with the new contract and bonus will not be paid.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company adopted a share option scheme (the "2002 Share Option Scheme"), the principal terms of which are set out in the Prospectus. At the annual general meeting of the Company held on 10 May 2012, a New Share Option Scheme was adopted upon expiry of the 2002 Share Option Scheme.

Movements of the share option during the year ended 31 December 2012 were as follows:

		Number of share options				
Grantees	**Date of Grant**	**Outstanding at 1.1.2012**	**Granted**	**Exercised**	**Lapsed**	**Outstanding at 31.12.2012**
Directors						
Lee Siu Fong	25.09.2009	448,000	–	(448,000)	–	–
	20.12.2010	465,000	–	(232,500)	–	232,500
	20.12.2011	469,000	–	(234,500)	–	234,500
	20.12.2012	–	521,000	–	–	521,000
Leelalertsuphakun Wanee	06.09.2010	450,000	–	(225,000)	–	225,000
	07.10.2011	469,000	–	(234,000)	–	235,000
	08.10.2012	–	519,000	–	–	519,000
Li Xiaoyi	25.09.2009	448,000	–	–	–	448,000
	20.12.2010	465,000	–	–	–	465,000
	20.12.2011	469,000	–	–	–	469,000
	20.12.2012	–	521,000	–	–	521,000
Mauro Bove	11.07.2005	500,000	–	–	–	500,000
	02.06.2006	500,000	–	–	–	500,000
	20.12.2010	300,000	–	–	–	300,000
Sub-total of Directors		4,983,000	1,561,000	(1,374,000)	–	5,170,000
Employees	13.01.2003	150,000	–	–	–	150,000
	25.06.2004	2,160,000	–	–	–	2,160,000
	11.07.2005	2,350,000	–	(565,000)	–	1,785,000
	02.01.2008	520,000	–	(200,000)	–	320,000
	12.01.2010	4,170,000	–	(710,000)	(435,000)	3,025,000
	08.10.2012	–	6,040,000	–	–	6,040,000
Consultants	02.06.2006	500,000	–	–	–	500,000
	02.01.2008	2,000,000	–	–	–	2,000,000
	26.11.2008	500,000	–	–	–	500,000
	20.12.2010	250,000	–	–	–	250,000
Sub-total of employees and consultants		12,600,000	6,040,000	(1,475,000)	(435,000)	16,730,000
Grand total		**17,583,000**	**7,601,000**	**(2,849,000)**	**(435,000)**	**21,900,000**

REPORT OF THE DIRECTORS

Notes:

1. Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK$
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014	0.218
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005-24.06.2014	
11.07.2005	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015	0.159
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006-10.07.2015	
02.06.2006	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016	0.175
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	
02.01.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018	0.492
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	
26.11.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009-25.11.2018	0.383
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010-25.11.2018	

REPORT OF THE DIRECTORS

Date of Grant	Exercise period	Exercise price per share HK$
25.09.2009	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.03.2010-24.09.2019 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.12.2010-24.09.2019	1.076
12.01.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010-11.01.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011-11.01.2020	2.200
06.09.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 06.03.2011-05.09.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 06.12.2011-05.09.2020	2.990
20.12.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011-19.12.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012-19.12.2020	3.750

REPORT OF THE DIRECTORS

Date of Grant	Exercise period	Exercise price per share HK$
07.10.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 07.04.2012-06.10.2021	2.526
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 07.01.2013-06.10.2021	
20.12.2011	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012-19.12.2021	2.666
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013-19.12.2021	
08.10.2012	(i) 259,500 options will be exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013-07.10.2022	4.996
	(ii) 259,500 options will be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014-07.10.2022	
	(iii) 1,160,000 options will be exercisable during the period from 08.10.2013-07.10.2022;	
	(iv) 2,230,000 options will be exercisable during the period from 08.10.2014-07.10.2022;	
	(v) 2,650,000 options will be exercisable during the period from 08.10.2015-07.10.2022.	
20.12.2012	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2013-19.12.2022	4.930
	(ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2014-19.12.2022	

2. The weighted average closing price immediately before the dates on which the options were exercised was HK$4.28.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2012 none of the directors or chief executive or their respective spouse or children under 18 years of age were granted or exercise any rights to subscribe for any equity of the Company or any of its associated corporations.

SHARE OPTION SCHEME OF A SUBSIDIARY

On 12 November 2012, a share option scheme of a subsidiary of the Company, CVie Therapeutics Company Limited ("CVie") was approved by the shareholders of the Company.

On 30 November 2012, 440,000 share options were granted under the share option scheme to employee of CVie at exercise price of US$0.21 per share. Validity period of the share option is as follows:

(i) 133,000 options will be exercisable upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

(ii) 267,000 options will be exercisable one year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

(iii) 40,000 options will be exercisable during the period from 1 December 2014 to 30 November 2022.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2012, the following directors and chief executive and their associates had interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") were as follows:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	**Capacity and nature**	*Notes*	**Number of shares**	**Total**	**% of issued share capital**
Lee Siu Fong	Beneficial owner		1,674,375		
	Interest of corporation	(i)	120,690,625	122,365,000	23.48
Leelalertsuphakun Wanee	Beneficial owner		281,000		
	Interest of corporation	(i)	120,690,625	120,971,625	23.21
Li Xiaoyi	Beneficial owner		35,105,000		
	Interest of spouse	(ii)	16,000,000	51,105,000	9.81
Chan Yau Ching, Bob	Beneficial owner		1,190,000	1,190,000	0.23
Tsim Wah Keung, Karl	Beneficial owner		300,000	300,000	0.06
Lam Yat Cheong	Beneficial owner		300,000	300,000	0.06

Notes:

(i) 120,690,625 Shares are held through Huby Technology Limited ("Huby Technology") and Dynamic Achieve Investments Limited ("Dynamic Achieve"). Each of Huby Technology and Dynamic Achieve is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(ii) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li.

REPORT OF THE DIRECTORS

(b) Share options

Name	Capacity and nature	Number of options held	Number of underlying Shares
Lee Siu Fong	Beneficial owner	988,000	988,000
Leelalertsuphakun Wanee	Beneficial owner	979,000	979,000
Li Xiaoyi	Beneficial owner	1,903,000	1,903,000
Mauro Bove	Beneficial owner	1,300,000	1,300,000
		5,170,000	5,170,000

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Lee Siu Fong	122,365,000	988,000	123,353,000
Leelalertsuphakun Wanee	120,971,625	979,000	121,950,625
Li Xiaoyi	51,105,000	1,903,000	53,008,000
Chan Yau Ching, Bob	1,190,000	–	1,190,000
Tsim Wah Keung, Karl	300,000	–	300,000
Lam Yat Cheong	300,000	–	300,000
Mauro Bove	–	1,300,000	1,300,000

2. *Short positions*

No short positions of directors and chief executive in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executive's Interests" above, at no time during the year ended 31 December 2012 were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2012, the following persons/companies, other than a director or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

1. *Long positions*

(a) Ordinary shares of HK$0.05 each of the Company

Name	Capacity and nature	*Notes*	Number of Shares	% of issued share capital
Huby Technology Limited	Beneficial owner		120,290,625	23.08
Defiante Farmaceutica, S.A.	Beneficial owner		137,720,000	26.43
GL Trade Investment Limited	Beneficial owner		48,485,000	9.30
FIL Limited	Beneficial owner		30,305,000	5.82
High Knowledge Investments Limited	Beneficial owner	(i)	16,000,000	3.07
Lue Shuk Ping, Vicky	Interest in corporation	(i)	16,000,000	3.07
	Interest of spouse	(ii)	35,105,000	6.74

(b) Underlying shares

Name	Capacity and nature	*Notes*	Nature of underlying shares	Number of underlying Shares
Lue Shuk Ping, Vicky	Interest of spouse	(ii)	Share Options	1,903,000

REPORT OF THE DIRECTORS

(c) Aggregate long positions in the Shares and the underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number
Huby Technology Limited	120,290,625	–	120,290,625
Defiante Farmaceutica, S.A.	137,720,000	–	137,720,000
GL Trade Investment Limited	48,485,000	–	48,485,000
FIL Limited	30,305,000	–	30,305,000
High Knowledge Investments Limited	16,000,000	–	16,000,000
Lue Shuk Ping, Vicky	51,105,000	1,903,000	53,008,000

Notes:

(i) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue.

(ii) The Shares and share option are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

2. *Short positions*

No short positions of other persons and substantial shareholders in the Shares or underlying Shares of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 31 December 2012, so far as is known to the directors, no person was recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company or short positions in the Shares or underlying Shares of the Company.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected Transaction

Advance of shareholder loans to Powder Pharmaceuticals Incorporated ("Powder")

During the year ended 31 December 2012, the following shareholder loans were provided by the Group to Powder:

Advance Date	Term	Interest rate	Loan amount *(HK$)*
1 March 2012	1 year	6% per annum	3,877,000
24 July 2012	1 year	4% per annum	3,877,000
Repayment of loan on 1 November 2012			(1,495,902)
Outstanding loan amount as at 31 December 2012			6,258,098

Dr. Li Xiaoyi, a director of the Company and Defiante in aggregate, is holding more than 10% of equity interest in Powder and advance of shareholder loans to Powder constitutes connected transactions.

As at 31 December 2012, the Group had interest in 16.31% of issued share capital of Powder.

Continuing Connected Transactions

1. *Acquisition of licenses for Istaroxime and Rostafuroxin from Sigma-Tau and its associate*

On 24 May 2012, licensing agreements with duration of three years were signed by CVie Therapeutics Company Limited ("CVie") and Sigma-Tau Group and its associate for the acquisition of licenses for Istaroxime and Rostafuroxin.

There was no payment to Sigma-Tau Group and its associate for the year ended 31 December 2012 under the licensing agreements.

2. *Acquisition of license for Thymosin Beta 4 from RegeneRx Biopharmaceuticals, Inc. ("RegeneRx")*

A licensing agreement with duration of three years was signed by Lee's Pharmaceutical (HK) Limited and RegeneRx on 12 July 2012 for the acquisition of license for Thymosin Beta 4 from RegeneRx. RegeneRx is an associate of a substantial shareholder of the Company, namely, Defiante Farmaceutica S.A. and the licensing agreement constituted a continuing connected transaction of the Company.

REPORT OF THE DIRECTORS

For the year ended 31 December 2012, license fee of total amount HK$3,120,000 was paid to RegeneRx in accordance with the licensing agreement which was equal to annual cap for 2012.

3. *Acquisition of license for Gimatecan Products from Sigma-Tau Group*

On 23 November 2012, a licensing agreement with duration of three years was signed by Lee's Pharmaceutical (HK) Limited and Sigma-Tau Group for the acquisition of license for Gimatecan Products.

There was no payment to Sigma-Tau Group for the year ended 31 December 2012 under the licensing agreement.

4. *Purchase of Carnitene® and other pharmaceutical products from Sigma-Tau Group*

Defiante Farmaceutica, S.A. is a substantial shareholder of the Company and also a member of Sigma-Tau Group. The supply of pharmaceutical products by Sigma-Tau Group to the Company constituted continuing connected transactions under the Listing Rules.

The continuing connected transactions were approved by independent shareholders where annual Cap of purchase of *Carnitene®* and other pharmaceutical products by the Company from the Sigma-Tau Group for the year ended 31 December 2012 would not exceed HK$113,569,872.

For the year ended 31 December 2012, purchase of *Carnitene®* and other pharmaceutical products by the Company from the Sigma-Tau Group amounted to HK$57,621,774.

The above continuing connected transactions have been reviewed by the independent non-executive directors and they have confirmed that the transactions:

a. have been entered into in the usual and ordinary course of businesses of the Company and its subsidiaries.

b. are conducted on normal commercial terms.

c. are entered into in accordance with the terms of relevant agreements that are fair and reasonable and in the interests of Shareholders as a whole.

d. have not exceeded the cap disclosed in previous announcements.

Save as disclosed above, there was no other transaction requiring disclosure of connected transactions in accordance with the requirements of the Listing Rules.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012 (2011: Nil).

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors, a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules during the year. Based on such confirmation, the Company considers Dr. Chan Yau Ching, Bob, Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl to be independent.

STAFF RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

With effect from January 2012, executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if they have engaged in continuous service with the Company for certain years.

COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2012.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Group's audited results for the year ended 31 December 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

During the year, Messrs. HLM & Co., who acted as auditor of the Company for the past three years, resigned and Messrs. HLM CPA Limited was appointed as auditor of the Company.

The consolidated financial statements have been audited by HLM CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lee Siu Fong
Chairman

Hong Kong, 20 March 2013

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained to safeguard the interests of our shareholders, investors, customers and staff.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of Main Board Listing Rules throughout the year ended 31 December 2012, with deviations from provision A.5 of the Code.

Under provision A.5 of the Code, a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of directors. The Board as a whole is responsible for the appointment of its own members. The Board does not establish a Nomination Committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence and experience that they can contribute to the Company.

DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2012, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Main Board Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The Non-executive Directors provide the Group with a wide range of expertise and knowledge in the pharmaceutical sector. The Independent Non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, financial and pharmaceutical field.

With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board.

The list of directors of the Company and their roles and functions is posted on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

The Chairman and Chief Executive Officer of the Company are Ms. Lee Siu Fong and Dr. Li Xiaoyi respectively. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures good corporate governance and compliance with legal and regulatory requirements. Responsibility in relation to daily operations and execution of the strategic business plans are delegated to each of the executive directors and management.

The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

During the financial year ended 31 December 2012, 13 full board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Lee Siu Fong *(Chairman)*	13/13	100%
Leelalertsuphakun Wanee	13/13	100%
Li Xiaoyi	13/13	100%
Non-executive Director		
Mauro Bove	5/13	38%
Independent Non-Executive Directors		
Chan Yau Ching, Bob	13/13	100%
Lam Yat Cheong	12/13	92%
Tsim Wah Keung, Karl	10/13	77%

CORPORATE GOVERNANCE REPORT

During the financial year ended 31 December 2012, two general meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Lee Siu Fong *(Chairman)*	2/2	100%
Leelalertsuphakun Wanee	2/2	100%
Li Xiaoyi	2/2	100%
Non-executive Director		
Mauro Bove	0/2	–
Independent Non-Executive Directors		
Chan Yau Ching, Bob	0/2	–
Lam Yat Cheong	0/2	–
Tsim Wah Keung, Karl	0/2	–

The Company's Auditors HLM CPA Limited (formerly known as HLM & Co.,) attended the 2012 Annual General Meeting.

NON-EXECUTIVE DIRECTORS

All non-executive directors are appointed for a specific term, subject to retirement by rotation at least once every three years.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Company is responsible for arranging and funding suitable training for its directors. The Company had organised a seminar on the listing rules for the directors in 2012. The seminar was conducted by the Company's legal advisers King & Wood & Mallesons with presentation and briefing materials. In addition, individual directors also participated in other courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials. The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis.

The Company set up an audit committee with written terms of reference in compliance with Rules 3.21 of the Main Board Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (Chairman of the audit committee), Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive directors of the Company.

In the financial year ended 31 December 2012, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditors and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendants	Number of audit committee meetings attended/Total	Attendance percentage
Chan Yau Ching, Bob	4/4	100%
Lam Yat Cheong	4/4	100%
Tsim Wah Keung, Karl	3/4	75%

REMUNERATION COMMITTEE

A remuneration committee has been established in February 2012 in accordance with the requirement of Appendix 14 of the Listing Rules. The Remuneration Committee of the Company comprises two Independent Non-executive Directors and one Executive Director. Dr. Tsim Wah Keung, Karl is the Chairman of the Committee and Leelalertsuphakun Wanee and Dr. Chan Yau Ching, Bob are members of the Committee. The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of individual Executive Directors and senior management.

CORPORATE GOVERNANCE REPORT

The major roles and functions of the Company's Remuneration Committee are as follows:

a. Establish and apply a formal and transparent procedure for setting policy on remuneration for executive directors and senior management, and for fixing the remuneration packages for all directors and senior management; and

b. Ensure that procedures and principles for fixing packages of all directors and senior management are proper so that the levels of remuneration of directors commensurate with their qualifications and competencies, and that such remuneration is sufficient to attract and retain the directors and senior management but not excessive.

The terms of reference of the Remuneration Committee are posted on the websites of the Company and the Stock Exchange. The Remuneration Committee meets at least once a year. The revised service contracts for executive directors for the year 2012 had been approved by all the member of Remuneration Committee.

COMPANY SECRETARY

Miss Luen Yee Ha, Susanne has been appointed as Company Secretary of the Company since June 2005. She is a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and has complied with Rule 3.29 of the Listing Rules in relation to professional training during the financial year 2012.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group's asset and shareholders' interests, as well as for reviewing such systems' effectiveness. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems. The systems include a well-established organizational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

For the year ended 31 December 2012, the Board has, through the Audit Committee with the assistance of the management, conducted a review of the Group's internal control system, including without limitation to financial control, operational control, compliance control and risk management functions. The Board assesses the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and auditors.

CORPORATE GOVERNANCE REPORT

The Board is of the view that the internal control systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, all the remuneration paid to the Company's auditors HLM CPA Limited, formerly known as HLM & Co., of amount HK$660,000 was audit services fee.

CONVENING OF EXTRAORDINARY GENERAL MEETINGS ON REQUISITION BY SHAREHOLDERS

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("EGM") of the Company. Two or more Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for a EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

Shareholders who wish to move a resolution at general meetings may follow the procedures set out in the preceding paragraph.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Lee's Pharmaceutical Holdings Limited
Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, Hong Kong
Telephone: (852) 2314 1182
Fax: (852) 3404 5662
Email: investor@leespharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATION

Constitutional Documents

There was no change to the Company's Memorandum and Articles of Association during the financial year 2012. A copy of the Memorandum and Articles of Association is posted on the websites of the Company and the Stock Exchange.

On behalf of the Board

Lee Siu Fong
Chairman

Hong Kong, 20 March 2013

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
Email 電郵: hlm@hlm.com.hk

TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 140, which comprise the consolidated and the Company's statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM CPA Limited
Certified Public Accountants

Chan Lap Chi
Practising Certificate number: P04084

Hong Kong, 20 March 2013

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	5	534,333	399,685
Cost of sales		(153,498)	(107,852)
Gross profit		380,835	291,833
Other revenue	8	12,385	5,881
Gain on deemed disposal of associates		–	6,441
Selling and distribution expenses		(179,512)	(156,437)
Research and development expenses		(16,304)	(11,835)
Administrative expenses		(63,042)	(37,090)
Profit from operations	9	134,362	98,793
Share of results of associates		–	(273)
Finance costs	10	(1,192)	(768)
Profit before taxation		133,170	97,752
Taxation	13	(20,104)	(13,728)
Profit for the year		113,066	84,024
Attributable to:			
Shareholders of the Company		113,807	83,906
Non-controlling interests		(741)	118
		113,066	84,024
		HK cents	HK cents
Earnings per share			
Basic	15	22.82	17.90
Diluted	15	22.38	17.53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	113,066	84,024
Other comprehensive income (expenses):		
Exchange differences on translation of:		
– Financial statements of overseas subsidiaries	4,267	4,613
– Revaluation of overseas buildings	56	162
Release of share of other reserves of associates	–	(5,855)
Other comprehensive income (expenses) for the year, net of tax	4,323	(1,080)
Total comprehensive income for the year	117,389	82,944
Total comprehensive income (expenses) for the year attributable to:		
Shareholders of the Company	118,127	82,811
Non-controlling interests	(738)	133
	117,389	82,944

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current Assets			
Property, plant and equipment	16	128,814	47,303
Intangible assets	17	127,156	87,297
Lease premium for land	18	15,157	7,514
Goodwill	19	3,900	3,900
Available-for-sale financial asset	21	9,660	8,165
		284,687	154,179
Current Assets			
Lease premium for land	18	324	164
Inventories	22	64,071	35,004
Trade receivables	23	71,469	58,342
Other receivables, deposits and prepayments		33,573	25,890
Advance to related party	24	6,505	–
Pledged bank deposits	25	2,000	2,003
Time deposits	25	175,313	40,896
Cash and bank balances	25	158,589	93,598
		511,844	255,897
Current Liabilities			
Trade payables	26	29,111	9,105
Other payables		94,760	46,866
Obligations under license contract	35	3,683	–
Derivative financial instrument		–	136
Bank borrowings	27	31,483	17,160
Obligations under finance leases	28	563	522
Tax payables		13,089	9,708
		172,689	83,497
Net Current Assets		339,155	172,400
Total Assets less Current Liabilities		623,842	326,579

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Capital and Reserves			
Share capital	30	26,055	23,489
Reserves		556,101	288,425
Equity attributable to the shareholders of the Company		582,156	311,914
Non-controlling interests	31	11,123	417
Total Equity		593,279	312,331
Non-current Liabilities			
Deferred tax liabilities	29	13,215	13,379
Obligations under finance leases	28	319	869
Retirement benefit	34	10,891	–
Obligations under license contract	35	6,138	–
		30,563	14,248
		623,842	326,579

The financial statements on pages 49 to 140 were approved and authorised for issue by the Board of Directors on 20 March 2013 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current Assets			
Intangible assets	17	3,840	3,840
Interests in subsidiaries	20	211,284	120,491
		215,124	124,331
Current Assets			
Other receivables, deposits and prepayments		172	252
Time deposits	25	107,601	25,182
Cash and bank balances	25	11,327	4,408
		119,100	29,842
Current Liability			
Other payables		1,823	201
Net Current Assets		117,277	29,641
Total Assets less Current Liability		332,401	153,972
Capital and Reserves			
Share capital	30	26,055	23,489
Reserves	32	295,455	130,483
		321,510	153,972
Non-current Liability			
Retirement benefit	34	10,891	–
		332,401	153,972

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to the shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2012	23,489	105,533	9,200	2,440	–	3,980	10,372	156,900	311,914	417	312,331
Employee share option benefits	–	–	–	1,456	–	–	–	–	1,456	–	1,456
Exercise of share options	142	5,416	–	(606)	–	–	–	–	4,952	–	4,952
Share of share-based compensation reserve of a subsidiary *(Note a)*	–	–	–	2	–	–	–	–	2	1	3
Issue of ordinary shares by placement	2,424	149,707	–	–	–	–	–	–	152,131	–	152,131
Capital contribution from non – controlling interests	–	–	–	–	–	–	–	–	–	203	203
Deemed partial disposal of interests in a subsidiary (Note 33)	–	–	–	–	17,038	–	–	–	17,038	11,240	28,278
Profit (loss) for the year	–	–	–	–	–	–	–	113,807	113,807	(741)	113,066
Other comprehensive income for the year	–	–	–	–	–	56	4,264	–	4,320	3	4,323
Total comprehensive income (expenses) for the year	–	–	–	–	–	56	4,264	113,807	118,127	(738)	117,389
2011 final dividend paid	–	–	–	–	–	–	–	(14,107)	(14,107)	–	(14,107)
2012 interim dividend paid	–	–	–	–	–	–	–	(9,357)	(9,357)	–	(9,357)
At 31 December 2012	26,055	260,656	9,200	3,292	17,038	4,036	14,636	247,243	582,156	11,123	593,279
At 1 January 2011	23,292	103,143	9,200	1,969	5,855	3,818	5,774	88,013	241,064	284	241,348
Employee share option benefits	–	–	–	1,204	–	–	–	–	1,204	–	1,204
Exercise of share options	197	2,390	–	(733)	–	–	–	–	1,854	–	1,854
Profit for the year	–	–	–	–	–	–	–	83,906	83,906	118	84,024
Other comprehensive (expense) income for the year	–	–	–	–	(5,855)	162	4,598	–	(1,095)	15	(1,080)
Total comprehensive (expenses) income for the year	–	–	–	–	(5,855)	162	4,598	83,906	82,811	133	82,944
2010 final dividend paid	–	–	–	–	–	–	–	(9,384)	(9,384)	–	(9,384)
2011 interim dividend paid	–	–	–	–	–	–	–	(5,635)	(5,635)	–	(5,635)
At 31 December 2011	23,489	105,533	9,200	2,440	–	3,980	10,372	156,900	311,914	417	312,331

Note a: Share of share-based compensation reserve of a subsidiary was derived from a subsidiary, CVie Therapeutics Company Limited, which has granted Share Options to its employees during the year. Detail can be referenced to note 40 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Profit before taxation	133,170	97,752
Adjustments for:		
Impairment in value of available for sales	–	684
Decrease in fair value of derivative financial instrument	–	136
Profit on deemed disposal of associates	–	(6,441)
Share of loss of associates	–	273
Retirement benefit	10,891	–
Depreciation of property, plant and equipment	10,378	7,799
Interest expenses	1,034	648
Interest income	(1,981)	(390)
Interest from advance to related party	(246)	–
Amortisation of intangible assets	3,944	3,194
Amortisation of leasehold premium for land	193	67
Intangible assets written off	3,752	4,238
Exchange difference	1,741	372
Share based payments	1,459	1,204
Allowance for bad and doubtful debts	2,871	1,365
Loss on disposal of property, plant & equipment	18	264
Operating cash flows before movements in working capital	167,224	111,165
Increase in inventories	(28,820)	(11,390)
Increase in trade receivables	(15,639)	(17,631)
Increase in other receivables, deposits and prepayments	(7,490)	(5,398)
Increase in trade payables	19,996	8,622
Decrease in bill payables	–	(1,402)
Increase in other payables	57,194	7,461
Cash from operations	192,465	91,427
Interest paid	(1,034)	(648)
Income tax paid	(17,006)	(2,768)
Net cash generated from operating activities	174,425	88,011
Investing activities		
Interest received	1,981	390
Purchase of plant and equipment	(6,074)	(18,551)
Payment for construction in progress	(85,251)	(8,973)
Acquisition of leasehold land	(7,890)	(6,423)
Additions of deferred development cost and license fee	(46,964)	(28,619)
Advance to related party	(7,754)	–
Receipt of advance to related party	1,495	–
Decrease (increase) in pledged bank deposit	3	(3)
Investment in AFS financial asset	(1,495)	–
Capital contribution from non-controlling interests	28,481	–
Net cash used in investing activities	(123,468)	(62,179)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK$'000	2011 HK$'000
Financing activities		
New loans raised	21,819	12,000
Repayment of loans	(7,496)	(12,996)
Proceed from obligations under finance leases	–	1,048
Repayment of obligations under finance leases	(509)	(157)
Net proceeds from issue of ordinary shares upon placement	152,131	–
Net proceeds from issue of ordinary shares upon exercise of share options	4,952	1,854
Dividend paid	(23,464)	(15,019)
Net cash generated from (used in) financing activities	147,433	(13,270)
Net increase in cash and cash equivalents	198,390	12,562
Cash and cash equivalents at 1 January	134,494	120,104
Effect of foreign exchange rate changes	1,018	1,828
Cash and cash equivalents at 31 December	333,902	134,494
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	158,589	93,598
Time deposits	175,313	40,896
	333,902	134,494

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL INFORMATION

Lee's Pharmaceutical Holdings Company (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the development, manufacturing and sales of pharmaceutical products.

The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The accounting policies and methods of computation used in these financial statements are the same as those followed in the presentation of the Group's annual financial statements for the year ended 31 December 2011, except for the following amendments to HKFRSs that the Group has applied for the first time in the current year.

Amendments to HKFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendment proposes guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to sever hyperinflation. These amendments has no impact to the Group.

Amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted.

The Group does not have any investment property and has no impact on the consolidated financial statements by these amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Amendments to HKAS 1 *Presentation of Financial Statements (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012)*

Various amendments to HKFRSs were issued in June 2012, the title of which is *"Annual Improvements to HKFRSs (2009-2011 Cycle)"*. The effective date of these amendments is annual periods beginning on or after 1 January 2013.

The Group has applied for the first time the amendments to HKAS 1 as part of the *Annual Improvements to HKFRSs 2009-2011 Cycle* in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied the amendments to HKFRS 7 *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

During the year, the Group did not transfer any financial assets and the Group has no impact on this issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKFRS 1	Government loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[3]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle except for the amendments to HKAS 1[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through or loss, HKFRS 9 requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK(SIC) – Int 12 *Consolidated – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or right, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Ventures* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of HKFRS 10 and HKFRS 11 may have an impact on amounts reported in the consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments may have impact on amounts reported in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 13 Fair Value Measurement (continued)

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKFRS 7 and HKAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting arrangement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

HKAS 19 Employee Benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a "net-interest" amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the application of the amendments to HKAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new technology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to the grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income (continued)

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The *Annual Improvements to HKFRSs 2009 – 2011 Cycle* include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 16 *Property, Plant and Equipment; and*
- amendments to HKAS 32 *Financial Instruments: Presentation.*

Amendments to HKAS 16

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to HKAS 32

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

HK (IFRIC) – Int 20 Stripping Costs in the Production Phase of a Surface Mine

HK (IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation, the costs from their waste removal activity (stripping) which provide improved access to ore is recognised as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

HK (IFRIC) – Int 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply HK (IFRIC) – Int 20 for the first time. However, HK (IFRIC) – Int 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented. The directors anticipate that HK (IFRIC) – Int 20 will have no effect to the Group's financial statements as the Group does not engage in such activities.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, where applicable, on the basis specified in another HKFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interest in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, could have affected the amounts recognised as of that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the end of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance leases.

Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as on operating lease is presented as "lease premium for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interest and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of revaluation reserve.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised as profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, and added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary with maximum amount of HK$1,250 per month for each employee.

The pension schemes covering all the Group's employees in the People's Republic of China (the "PRC") are defined contribution schemes at various funding rates, and are in accordance with the local practices and regulations.

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes, and the Mandatory Provident Fund Scheme are recognised as expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plan, the cost of providing benefits is determined by the valuation conducted by independent valuer at the end of the reporting period, amortised over the expected average remaining working lives of the participating employees.

The retirement benefit recognised in the consolidated statement of financial position represents the cost of providing benefits, based on the valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that is probable taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary difference associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred Tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and cost directly attributable to the construction of properties. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost and valuation of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method, at the following rates per annum:

Buildings	5%
Leasehold improvement	10% – 20%
Plant and machinery	5% – 14%
Office and laboratory equipment	20% – 33%
Motor vehicle	10%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, internally-generated intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision and expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than financial assets classified as at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled be delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, advance to related party, other receivables, deposits and prepayment, pledged bank deposits, time deposits, and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated in equity. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities at FVTPL (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount an initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continue to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirely, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which are estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill was HK$3,900,000 as at 31 December 2012 (31 December 2011: HK$3,900,000), there was no impairment on goodwill during the year.

Valuation of financial instruments

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instrument.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated fair value of retirement benefits

The retirement benefit of the Group stated in the consolidated statement of financial position was stated at fair value, which was determined by a firm of independently professional valuer. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the estimation, consideration has been given to assumptions that are mainly based on market condition exist at the end of the reporting period and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

6. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of good delivered.

Under HKFRS 8, the Group's reportable and operating segments are as follows:

Proprietary products	–	manufacturing and sales of self-developed pharmaceutical products
Licensed products	–	trading of license-in pharmaceutical products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

6. SEGMENT INFORMATION *(continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments.

	Proprietary products		Licensed products		Consolidated	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Segment turnover	257,463	199,876	276,870	199,809	534,333	399,685
Segment results	88,206	60,669	66,980	41,106	155,186	101,775
Interest income					1,981	390
Gain on deemed disposal of associates					–	6,441
Unallocated expenses					(22,805)	(9,813)
Profit from operations					134,362	98,793
Finance costs					(1,192)	(768)
Profit before share of result of associates					133,170	98,025
Share of results of associates					–	(273)
Profit before taxation					133,170	97,752
Taxation					(20,104)	(13,728)
Profit for the year					113,066	84,024

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2011: nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, interest income, gain on deemed disposal of associates, finance costs, results of associates, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

6. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

	Proprietary products		Licensed products		Consolidated	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Segment assets	144,755	106,733	315,873	166,845	460,628	273,578
Unallocated assets					335,903	136,498
Total assets					796,531	410,076
Segment liabilities	72,997	28,275	93,060	46,383	166,057	74,658
Unallocated liabilities					37,195	23,087
Total liabilities					203,252	97,745

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than investment in associates, pledged bank deposits, time deposits and cash and bank balances. Goodwill is allocated to segment of proprietary products. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segment; and

- all liabilities are allocated to reportable segments other than tax payable, deferred tax liabilities, and retirement benefit. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

6. SEGMENT INFORMATION *(continued)*

Other segment information

	Proprietary products		Licensed products		Consolidated	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Depreciation of property, plant and equipment	8,634	6,365	1,744	1,434	10,378	7,799
Amortisation of intangible assets	287	619	3,657	2,575	3,944	3,194
Additions to non-current assets (Property, plant and equipment and intangible assets) during the year	35,803	21,956	102,486	34,187	138,289	56,143
Impairment of intangible assets	–	98	3,752	4,140	3,752	4,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

6. SEGMENT INFORMATION *(continued)*

Geographical information

During the years ended 31 December 2012 and 2011, more than 90% of the Group's turnover was derived from activities conducted in the PRC, no geographical segmental information on turnover is presented. The Group's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong		Total	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Segment assets	402,494	167,597	394,037	242,479	796,531	410,076
Segment liabilities	148,236	36,809	55,016	60,936	203,252	97,745

7. INFORMATION ABOUT MAJOR CUSTOMERS

Included in revenue of HK$534.3 million (2011: HK$399.7 million) are revenue of approximately HK$30.2 million (2011: HK$25.4 million) which arose from sales to the Group's largest customer. No other single customers contributed 5% or more to the Group's revenue for both 2012 and 2011.

8. OTHER REVENUE

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Interest income on bank deposits	1,981	390
Development grants	5,919	216
Other income	4,485	5,275
	12,385	5,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

9. PROFIT FROM OPERATIONS

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	10,378	7,799
Amortisation of intangible assets	3,944	3,194
Total depreciation and amortisation	14,322	10,993
Auditor's remuneration	660	601
Listing costs	676	660
Staff costs	86,721	56,804
Share based payments	1,459	1,204
Research and development costs	16,304	11,835
Operating lease payments in respect of rented premises	4,759	3,977
Allowance for bad and doubtful debts	2,871	1,365
Loss on disposal of plant and equipment	18	264
Cost of inventories recognised as expenses	139,096	102,287

10. FINANCE COSTS

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	946	608
Finance leases	88	40
Bank charges	158	120
	1,192	768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

11. DIRECTOR REMUNERATIONS

All directors received emoluments during the year. The emoluments paid or payable to each of the seven (2011: seven) directors were as follows.

The Group

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Employer's contributions to pension schemes HK$'000	Retirement benefits HK$'000	2012 Total emoluments HK$'000	2011 Total emoluments HK$'000
Executive Directors						
Lee Siu Fong	–	2,091	14	3,043	5,148	1,719
Leelalertsuphakun Wanee	–	2,878	14	5,808	8,700	2,443
Li Xiaoyi (CEO)	–	3,815	14	2,040	5,869	3,316
Non-executive Director						
Mauro Bove	100	–	–	–	100	75
Independent non-executive Directors						
Chan Yau Ching	60	–	–	–	60	60
Lam Yat Cheong	60	–	–	–	60	60
Tsim Wah Keung	60	–	–	–	60	60
Total	280	8,784	42	10,891	19,997	7,733

None of the directors waived any emoluments in the year ended 31 December 2012 (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2011: three) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2011: two) individuals were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	1,700	1,356
Contributions to retirement benefits schemes	14	24
	1,714	1,380

The emoluments of each of the above non-director highest paid individuals did not exceed HK$1,000,000 during the year.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. TAXATION

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Current tax		
Hong Kong	8,931	5,493
PRC Enterprise Income Tax	8,724	4,008
Under-provision in prior year	2,693	–
	20,348	9,501
Deferred tax		
(Written-back) provision of current year	(244)	4,227
	20,104	13,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

13. TAXATION *(continued)*

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 15% to 25% (2011: 15% – 25%).

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2012 HK$'000	2011 HK$'000
Profit before taxation	133,170	97,752
Notional tax at the rates applicable to results in regions concern	20,810	15,627
Tax effect of share of result of an associate	–	45
Tax effect of non-deductible expenses	1,958	1,950
Tax effect of non-taxable revenues	(1,385)	(1,950)
Under-provision in prior year	2,693	–
Tax effect on temporary differences not recognised	(38)	(3)
Temporary difference not recognised in last year	(2,653)	–
Tax effect of tax losses not recognised	650	74
Tax effect of PRC preferential tax allowance	(1,816)	(1,616)
Utilisation of tax losses previously not recognised	(115)	(399)
Tax charge for the year	20,104	13,728

At the 31 December 2012, the Group has unused estimated tax losses of approximate HK$4.718 million (2011: HK$1.249 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profits streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

14. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Interim dividend paid – HK$0.018 (2011: HK$0.012) per share	9,357	5,635
Final dividend proposed – HK$0.04 (2011: HK$0.03) per share	20,844	14,093
	30,201	19,728

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2012 of HK4.0 cents per share (2011: HK3.0 cents per share in respect of the year ended 31 December 2011) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting, and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	THE GROUP	
	2012	2011
Net profit attributable to shareholders of the Company for the purpose of basic and diluted earnings per share	HK$113,807,000	HK$83,906,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	498,634,617	468,729,725
Effect of dilutive potential ordinary shares:		
Options	9,816,286	9,900,651
Weighted average number of ordinary shares for the purposes of diluted earnings per share	508,450,903	478,630,376

As per shareholders' agreement ("the Agreement") of Powder Pharmaceutical Incorporated ("PPI") signed on 8 January 2010, the shareholders (except Lee's Pharmaceutical International Limited, a subsidiary of the Group as described in note 20) of PPI shall be entitled to exercise the rights to convert, (and not parts) of its shares free from encumbrances to shares of the Company. The shareholders can convert the shares at valuation of HK$1.80 per share, subject to adjustments, starting from the day after the 3rd anniversary and ending on the day immediately before the 5th anniversary of the date of agreement, i.e. from 8 January 2013 to 7 January 2015 ("the conversion period").

Thus, the shareholders of PPI could convert 22,066,068 shares of the Company during the conversion period which the contingent share agreement will cause dilution of earnings per share of the Company. Earnings per share of the Company will be diluted accordingly since 8 January 2013. No dilution effect is resulted from this Agreement in the current reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold Improvement	Plant and machinery	Office and laboratory equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
The Group							
COST OR VALUATION							
At 1 January 2012	21,657	2,502	26,544	11,649	4,784	8,973	76,109
Exchange rate adjustments	299	1	367	96	39	124	926
Additions	11	408	2,802	2,151	702	85,251	91,325
Disposals	–	–	(635)	(318)	–	–	(953)
At 31 December 2012	21,967	2,911	29,078	13,578	5,525	94,348	167,407
Comprising:							
At cost	–	2,911	29,078	13,578	5,525	94,348	145,440
At valuation	21,967	–	–	–	–	–	21,967
	21,967	2,911	29,078	13,578	5,525	94,348	167,407
DEPRECIATION AND IMPAIRMENT							
At 1 January 2012	9,698	1,521	10,341	6,134	1,112	–	28,806
Exchange rate adjustments	134	–	143	55	12	–	344
Charge for the year	1,592	492	5,087	2,493	714	–	10,378
Written off upon disposal	–	–	(617)	(318)	–	–	(935)
At 31 December 2012	11,424	2,013	14,954	8,364	1,838	–	38,593
NET BOOK VALUES							
At 31 December 2012	10,543	898	14,124	5,214	3,687	94,348	128,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings HK$'000	Leasehold Improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
The Group							
COST OR VALUATION							
At 1 January 2011	17,172	2,500	17,401	8,735	2,792	–	48,600
Exchange rate adjustments	728	2	738	229	83	–	1,780
Additions	4,154	–	9,509	2,979	1,909	8,973	27,524
Disposals	(397)	–	(1,104)	(294)	–	–	(1,795)
At 31 December 2011	21,657	2,502	26,544	11,649	4,784	8,973	76,109
Comprising:							
At cost	–	2,502	26,544	11,649	4,784	8,973	54,452
At valuation	21,657	–	–	–	–	–	21,657
	21,657	2,502	26,544	11,649	4,784	8,973	76,109
DEPRECIATION AND IMPAIRMENT							
At 1 January 2011	8,215	1,043	7,571	4,284	607	–	21,720
Exchange rate adjustments	348	–	322	128	20	–	818
Charge for the year	1,373	478	3,457	2,006	485	–	7,799
Written off upon disposal	(238)	–	(1,009)	(284)	–	–	(1,531)
At 31 December 2011	9,698	1,521	10,341	6,134	1,112	–	28,806
NET BOOK VALUES							
At 31 December 2011	11,959	981	16,203	5,515	3,672	8,973	47,303

The buildings are situated in the PRC under medium-term leases.

If the buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$7.88 million (2011: HK$8.95 million).

At both 31 December 2011 and 31 December 2012, the Group has not pledged fixed assets. Motor vehicles of HK$1,533,531 (2011: HK$1,731,256) are held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

17. INTANGIBLE ASSETS

	License fee HK$'000	Development cost HK$'000	Total HK$'000
The Group			
COST			
At 1 January 2011	34,850	34,185	69,035
Exchange rate adjustments	–	1,452	1,452
Additions	14,625	13,994	28,619
Impairment	(1,950)	(2,288)	(4,238)
At 31 December 2011 and at 1 January 2012	47,525	47,343	94,868
Exchange rate adjustments	–	648	648
Additions	19,702	27,262	46,964
Impairment	–	(3,752)	(3,752)
At 31 December 2012	67,227	71,501	138,728
AMORTISATION AND IMPAIRMENT			
At 1 January 2011	992	3,251	4,243
Exchange rate adjustments	–	134	134
Charge for the year	2,471	723	3,194
At 31 December 2011 and at 1 January 2012	3,463	4,108	7,571
Exchange rate adjustments	–	57	57
Charge for the year	3,361	583	3,944
At 31 December 2012	6,824	4,748	11,572
NET BOOK VALUES			
At 31 December 2012	60,403	66,753	127,156
At 31 December 2011	44,062	43,235	87,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

17. INTANGIBLE ASSETS *(continued)*

The Company	License fee HK$'000
COST	
At 31 December 2012 and 31 December 2011	3,840

Development costs comprise fees paid to medical research institutions and expenses incurred in developing pharmaceutical products.

18. LEASE PREMIUM FOR LAND

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Net book value at 1 January	7,678	1,269
Exchange rate adjustment	106	53
	7,784	1,322
Additions	7,890	6,423
Amortisation for the year	(193)	(67)
Net book value at 31 December	15,481	7,678
Current portion of non-current assets	(324)	(164)
Non-current portion	15,157	7,514

The leasehold land is held under medium-term lease and situated in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

19. GOODWILL

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
At Cost		
Balance at beginning and at the end of the year	3,900	3,900

At the end of the reporting period, the Group assessed the recoverable amount of goodwill associated with certain of the Group's selling activities. The recoverable amount of the selling activities was assessed by reference to the relevant cash-generating unit's value in use. A discount factor of 10% per annum (2011: 10% per annum) was applied in the value in use model. No write-down of the carrying amounts of assets in the cash-generating unit was necessary.

20. INTERESTS IN SUBSIDIARIES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Investments at cost:		
Unlisted shares	1	1
Amounts due from subsidiaries	211,283	120,490
	211,284	120,491

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment within twelve months from the end of the reporting period and the amounts are therefore shown as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

20. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's principal subsidiaries as at 31 December 2012 are set out as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2012 %	2011 %	2012 %	2011 %	
Lee's Pharmaceutical International Limited	The British Virgin Islands	Ordinary	US$1	100%	100%	–	–	Investment holding
Zhaoke Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Trading of pharmaceutical products
Lee's Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$18,400,000	–	–	100%	100%	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Co. Ltd.	PRC	Paid-up capital	US$2,000,000	–	–	100%	100%	Manufacture and sale of pharmaceutical products
China Oncology Focus Limited	The British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Not yet commenced Business
Zhaoke Pharmaceutical (Guangzhou) Ltd.	PRC	Paid-up capital	US$8,000,000	–	–	100%	100%	Trading of pharmaceutical products
China Cardiovascular Focus Limited	The British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Investment holding
Guangzhou Zhaoke Lian Fa Pharmaceutical Limited	PRC	Paid-up capital	RMB1,500,000	–	–	67%	67%	Trading of pharmaceutical products
CVie Therapeutics Company Limited	Cayman Islands	Ordinary	US$95,000	–	–	79.95%	–	Development and trading of pharmaceutical products *(Note 1)*

Note:

1. The company was incorporated in April 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

21. AVAILABLE-FOR-SALE FINANCIAL ASSET

Details of the Group's available-for-sale financial asset is as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Unlisted equity security *(Note)*	9,660	8,165

Note: The unlisted equity security represents the 16.31% (2011: 15.85%) equity interest in Powder Pharmaceuticals Incorporated ("PPI"), which is carried at cost less impairment losses. Since there was right issue by PPI to shareholders during the year, the shareholding of the Group was increased from 15.85% to 16.31%.

22. INVENTORIES

	THE GROUP	
	2012	2011
At cost	HK$'000	HK$'000
Raw materials	12,080	6,229
Work-in-progress	11,048	6,659
Finished goods	40,943	22,116
	64,071	35,004

Included above are raw materials which are carried at net realisable value of Nil (2011: Nil) at 31 December 2012.

23. TRADE RECEIVABLES

The credit period on sales of goods is 30-120 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The fair value of the Group's trade receivables at 31 December 2012 approximate to the corresponding carrying amount.

Of the trade receivables balance at the end of the year, HK$27,845,515 (2011: HK$13,540,581) is due from the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

23. TRADE RECEIVABLES *(continued)*

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

The following is an aging analysis of trade receivables at both 31 December 2011 and 2012.

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
0-90 days	63,942	53,493
91-180 days	5,184	3,837
181-365 days	4,686	2,024
Over 365 days and under 3 years	2,565	1,018
	76,377	60,372
Less: Allowance for bad and doubtful debts	(4,908)	(2,030)
	71,469	58,342

Movement in allowance for bad and doubtful debts

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Balance at beginning of the year	2,030	650
Exchange rate adjustments	7	15
Provision for doubtful debts	2,871	1,365
Balance at the end of the year	4,908	2,030

24. ADVANCE TO RELATED PARTY

The amount represents the loan advance to and interest receivable from a related party – Powder Pharmaceuticals Incorporated. Details have been stated at note 42(f).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS/TIME DEPOSITS

Bank balances carry interest at market rates which are 0.001% to 0.005% (2011: 0.0001% to 0.0006%) per annum. The pledged bank deposits carry interest rate of 0.13% (2011: 0.15%) per annum. The time deposits carry interest rate of 0.6% to 3.1% (2011: 0.6% to 1.3%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$2,000,000 (2011: HK$2,002,951) have been pledged to secure bank overdrafts and short-term bank loans and are therefore classified as current assets.

26. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2012 approximate to the corresponding carrying amount.

The following is an aging analysis of trade payables at 31 December 2012.

	THE GROUP	
	2012 HK$'000	2011 HK$'000
0-90 days	29,110	9,057
91-180 days	–	1
181-365 days	–	24
Over 365 days	1	23
	29,111	9,105

The average credit period on purchases of certain goods is 90 days. The Group has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

27. BANK BORROWINGS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Secured bank loans classified as current liabilities (1)(2)	31,483	17,160

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Carrying amount of the borrowings are repayable: (3)		
Within one year	8,995	4,445
More than one year but not exceeding two years	7,877	4,228
More than two year but not exceeding five years	14,611	8,487
	31,483	17,160

Notes:

(1) Loan represents bank borrowings under Small and Medium Enterprises Loan Guarantee Scheme and Special Loan Guarantee Scheme, Trade and Industry Department, profit tax loan and term loan. The interest rates of these loans are 3%-4% (2011:3%-6%) per annum, 1% per annum below the prime leading rate, and 2.75% per annum over the Bank's cost of funding respectively.

(2) As all the term loans include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause"), according to HK – Int 5 which requires the classification of whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Groups as current liabilities in the current year.

(3) The table is prepared in accordance with the agreed repayment schedule of the term loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

28. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. The average lease term is three years to five years (2011: three years to five years). Interest rates underlying all obligations under finance leases range from 5.52% to 8.99% (2011: 5.52% to 8.99%) per annum. These leases have no terms of renewal or purchase options and escalation clauses. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Amounts payable under finance leases:				
Within one year	611	611	563	522
In the second to fifth year inclusive	327	923	319	869
	938	1,534	882	1,391
Less: Future finance charges	(56)	(143)	n/a	n/a
Present value of lease obligations	882	1,391	882	1,391
Less: Amount due for settlement within 12 months (shown under current liabilities)			(563)	(522)
Amounts due for settlement after 12 months			319	869

The Group's obligations under finance leases are secured by the charge over the leased assets.

Finance lease obligations are denominated in Hong Kong dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29. DEFERRED TAX LIABILITIES

The following is the major deferred tax balances recognised and movements thereon during the current and prior years:

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Revaluation of properties HK$'000	Total HK$'000
At January 2011	312	8,185	487	8,984
Exchange difference	–	147	21	168
Charge (credit) to profit or loss	76	4,208	(57)	4,227
At 31 December 2011 and 1 January 2012	388	12,540	451	13,379
Exchange difference	–	73	7	80
Charge (credit) to profit or loss	3	(189)	(58)	(244)
At 31 December 2012	391	12,424	400	13,215

30. SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each		Amount	
	2012	2011	2012 HK$'000	2011 HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning of the year	469,770,437	465,832,437	23,489	23,292
Exercise of share options	2,849,000	3,938,000	142	197
Issue of ordinary shares by placement	48,485,000	–	2,424	–
At end of the year	521,104,437	469,770,437	26,055	23,489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

31. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries	Share-based compensation reserve of subsidiaries	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2012	417	–	417
Capital contribution	203	–	203
Additional non-controlling interests arising from deemed partial disposal of interest in a subsidiary	11,240	–	11,240
Share of loss for the year	(741)	–	(741)
Share of other comprehensive income for the year	3	–	3
Share of employee share options benefit	–	1	1
At 31 December 2012	11,122	1	11,123
At 1 January 2011	284	–	284
Share of profit for the year	118	–	118
Share of other comprehensive income for the year	15	–	15
At 31 December 2011	417	–	417

The non-controlling interests represents the 33% and 20.05% equity interests held by third parties in Guangzhou Zhaoke Lian Fa Pharmaceutical Limited and in CVie Therapeutics Company Limited respectively.

Transaction with non-controlling interests

There are other receivables of HK$205,756 approximately due from non-controlling interests of Guangzhou Zhaoke Lian Fa Pharmaceutical Limited as at 31 December 2012. (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

32. RESERVES

	Share premium HK $'000	Merger difference HK $'000	Share-based compensation reserve HK $'000	Retained profits HK $'000	Total HK $'000
The Company					
At 1 January 2012	105,533	9,200	2,440	13,310	130,483
Employee share option benefits	–	–	1,456	–	1,456
Exercise of share options	5,416	–	(606)	–	4,810
Issue of ordinary shares by placement	149,707	–	–	–	149,707
2011 final dividend paid	–	–	–	(14,107)	(14,107)
2012 interim dividend paid	–	–	–	(9,357)	(9,357)
Net profit for the year	–	–	–	32,463	32,463
At 31 December 2012	260,656	9,200	3,290	22,309	295,455
At 1 January 2011	103,143	9,200	1,969	1,893	116,205
Employee share option benefits	–	–	1,204	–	1,204
Exercise of share options	2,390	–	(733)	–	1,657
2010 final dividend paid	–	–	–	(9,384)	(9,384)
2011 interim dividend paid	–	–	–	(5,635)	(5,635)
Net profit for the year	–	–	–	26,436	26,436
At 31 December 2011	105,533	9,200	2,440	13,310	130,483

The movements of the Group's reserve are stated in the consolidated statement of changes in equity.

The Company's reserves available for distribution to shareholders as at 31 December 2012 was HK$295.46 million (2011: HK$130.48 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

32. RESERVES *(continued)*

The merger difference represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 2002.

The Company's reserves available for distribution represent the share premium, merger difference, share-based compensation reserve, and retained profits. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

33. DEEMED PARTIAL DISPOSAL OF INTERESTS IN A SUBSIDIARY

On 3 August 2012, CVie Therapeutics Company Limited ("CVie"), incorporated as a wholly-owned subsidiary of the Group in April 2012, issued 1,904,762 shares to Ivy Blue Holdings Limited, a third party to the Group, at consideration of USD4 million. After the issuance of shares, the Group's shareholding in CVie reduced by 20.05% to 79.95%. As the Group retained control over CVie, the Group recognised a gain on deemed partial disposal of interests in CVie of approximate HK$17,038,000 in the equity attributable to the shareholders of the Company, and an increase in non-controlling interests of approximate HK$11,240,000 for the shares in CVie at time of deemed partial disposal during the reporting period.

34. RETIREMENT BENEFIT

Defined contribution plan

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme with maximum amount of HK$1,250 (2011: HK$1,000) per month for each employee, which contribution is matched by employees.

The total cost recognised in profit or loss of HK$208,011 (2011: HK$154,937) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2012, contributions of HK$53,949 (2011: HK$34,536) due in respect of the reporting period had not been paid over to the schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

34. RETIREMENT BENEFIT *(continued)*

Defined benefit plan

Retirement benefit scheme represents the retirement benefit provided to the directors.

Each of executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Group for certain years. The Group will require to provide contribution to person in related to Ms. Leelatertsuphakun Wanee, Ms. Lee Siu Fong, and Dr. Li Xiaoyi for 8, 10 and 17 years respectively since 2012 based on their expected retirement years.

The carrying value of the retirement benefit represents the fair value at 31 December 2012 which was valued by Messrs. Ascent Partners Valuation Service Limited, an independent professional valuer not connected to the Group. The valuation was carried out on a fair value basis. The term "fair value" is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of retirement benefit was accrued in the consolidated financial statement but the retirement benefit scheme was not established up to the date of the report. Thus, no actuarial gain or loss will be considered.

35. OBLIGATIONS UNDER LICENSE CONTRACT

The balances as at 31 December 2012 and 2011 are repayable as follows:

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Obligations under license contract:		
Within one year	3,683	–
In the second to fifth year	6,138	–
	9,821	–
Less: Amount due for settlement within 12 months (shown under current liabilities)	(3,683)	–
Balance as at 31 December	6,138	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

36. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2011.

The capital structure of the Group consists of net debt (which includes borrowings, obligations under finance lease and obligations under license contract offset by cash and cash equivalents) and equity attributable to the shareholders of the Company (comprising issued share capital, share premium, reserves and retained profits).

Gearing ratio

The gearing ratio at end of the reporting period was as follows.

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Debt *(Note 1)*	42,186	18,551
Cash and cash equivalents	(333,902)	(134,494)
Net debt	(291,716)	(115,943)
Equity *(Note 2)*	582,156	311,914
Net debt to equity ratio	N/A	N/A

Notes:

(1) Debt is defined as long-term and short-term bank borrowings, obligations under finance lease and obligations under license contract as described in notes 27, 28 and 35.

(2) Equity includes all capital and reserves attributable to the shareholders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

37. FINANCIAL INSTRUMENTS

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group enters into financial instruments, including derivative financial instruments, for speculative purposes.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Fair values

As at 31 December 2012, the directors consider that financial assets (including trade receivables, other receivables, deposits and prepayments, advance to related party, pledged bank deposits, time deposits, and cash and bank balances) and financial liabilities (including trade payables, other payables, derivative financial instrument, and obligation under license contract) included in the consolidated statement of financial position at amounts approximating to their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, group into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 (Highest level): fair values measured are those derived from quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 (Lowest level): fair values measured are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

37. FINANCIAL INSTRUMENTS *(continued)*

Fair values *(continued)*

At 31 December 2012

	THE GROUP			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial Liability	–	–	–	–
Derivative financial instrument	–	–	–	–

At 31 December 2011

	THE GROUP			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial Liability	–	–	–	–
Derivative financial instrument	–	136	–	136

Note: The fair value of derivative financial instrument is determined based on the quoted market prices for equivalent instruments at the end of the reporting period.

There were no transfers between Levels 1 and 2 in the current year.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into the following derivative financial instrument to manage its exposure to foreign currency risk and interest rate risk:

- Forward foreign exchange contracts to hedge the exchange rate risk

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

37. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Assets		Liabilities	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Renminbi ("Rmb")	149,322	53,157	–	–
USD	44,652	39,979	–	–
Euro	6,264	2,066	–	–
	200,238	95,202	–	–

Foreign currency sensitivity analysis

The Group is mainly exposed the effects of fluctuation in Rmb, USD and Euro.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit or equity where Hong Kong dollars strengthens 5% against the relative foreign currencies. For a 5% weakening of Hong Kong dollars against the relevant foreign currencies, they would be a comparable impact on the profit or equity, and the balances would be negative.

	2012 HK$'000	2011 HK$'000
Increase in profit for the year	10,012	4,760

37. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Interest rate risk management

The Group is exposed to both cash flows interest rate risk and fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure.

Credit risk management

As at 31 December 2012, The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position

In order to minimise the credit risk, the management of the Group is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers and spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

Apart from Zhuhai Li Chen Medicine Co. Ltd (see below and refer to notes 7 and 23), the largest customer of the Group, the Group does not have significant risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Zhuhai Li Chen Medicine Co. Ltd did not exceed 10% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

37. FINANCIAL INSTRUMENTS *(continued)*

Credit risk management *(continued)*

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivate financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

37. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management *(continued)*

Liquidity table (continued)

	On demand or less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	More than 1 year HK$'000	Total HK$'000
At 31 December 2012					
Non-derivative financial assets					
Trade and other receivables	78,571	21,195	5,276	–	105,042
Advance to related party	–	2,560	3,945	–	6,505
Pledged bank deposits	–	2,000	–	–	2,000
Time deposit	111,341	20,450	43,522	–	175,313
Cash and bank balances	158,589	–	–	–	158,589
	348,501	46,205	52,743	–	447,449
Non-derivative financial liabilities					
Trade and other payables	108,195	14,164	1,512	–	123,871
Obligations under finance leases	47	94	422	319	882
Obligations under license contract	3,683	–	–	6,138	9,821
Bank borrowings	31,483	–	–	–	31,483
	143,408	14,258	1,934	6,457	166,057
At 31 December 2011					
Non-derivative financial assets					
Trade and other receivables	59,423	19,872	4,937	–	84,232
Pledged bank deposits	–	2,003	–	–	2,003
Time deposit	40,896	–	–	–	40,896
Cash and bank balances	93,598	–	–	–	93,598
	193,917	21,875	4,937	–	220,729
Non-derivative financial liabilities					
Trade and other payables	52,381	3,590	–	–	55,971
Obligations under finance leases	42	85	395	–	522
Bank borrowings	17,160	–	–	–	17,160
	69,583	3,675	395	–	73,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

38. CAPITAL COMMITMENTS

THE GROUP	2012 HK$'000	2011 HK$'000
Capital commitments in respect of:		
Intangible assets – license fee and development cost	20,603	26,168
Property, plant and equipment	9,083	1,373
Construction contract	98,363	9,125
	128,049	36,666
Authorised but not contracted for:		
Construction contract	–	123,000

39. LEASE COMMITMENTS

The Group as lessee

THE GROUP	2012 HK$'000	2011 HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	4,759	3,977

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

THE GROUP	2012 HK$'000	2011 HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	3,552	2,351
More than one year but not exceeding five years	2,382	1,492
	5,934	3,843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME

The Company

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"), share option scheme (the "Share Option Scheme") and new share option scheme (the "New Share Option Scheme") were adopted pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, and 10 May 2012 respectively for the primary purpose of providing incentives to directors, eligible employees, advisers and consultants.

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 21,900,000 (2011: 17,583,000) representing 4.39% (2011: 3.76%) of the shares of the Company in issue at that date.

For the Pre-IPO Share Option Scheme and the Share Option Scheme, the total number of shares in respect of which options may be granted under both scheme is not permitted to exceed 10% of the shares of the Company in issue at the time of listing, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

For the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on the date on which the New Share Option Scheme is conditionally adopted and approved by the Shareholders at the AGM, unless the Company obtains an approval from the shareholders in general meeting to refresh such 10% in accordance with the Listing Rules. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating such 10%. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme any other share option schemes must not exceed 30% of the Shares in issue from time to time.

The exercise price is determined by the directors, and will not be less than the highest of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Details of the Company's Share Option Scheme are summarized as follow:

Date of grant	Outstanding at 01.01.2012	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2012	Exercise period	Exercise price per share
Category I: Directors							
11.07.2005	500,000	–	–	–	500,000	11.01.2006-10.07.2015	HK$0.159
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
25.09.2009	896,000	–	(448,000)	–	448,000	25.03.2010-24.09.2019	HK$1.076
06.09.2010	450,000	–	(225,000)	–	225,000	06.03.2011-05.09.2020	HK$2.990
20.12.2010	1,230,000	–	(232,500)	–	997,500	20.06.2011-19.12.2020	HK$3.750
07.10.2011	469,000	–	(234,000)	–	235,000	07.04.2012-06.10.2021	HK$2.526
20.12.2011	938,000	–	(234,500)	–	703,500	20.06.2012-19.12.2021	HK$2.666
08.10.2012	–	519,000	–	–	519,000	08.04.2013-07.10.2022	HK$4.996
20.12.2012	–	1,042,000	–	–	1,042,000	20.06.2013-19.12.2022	HK$4.930
Category II: Employees							
13.01.2003	150,000	–	–	–	150,000	13.07.2003-12.01.2013	HK$0.405
25.06.2004	2,160,000	–	–	–	2,160,000	25.12.2004-24.06.2014	HK$0.218
11.07.2005	2,350,000	–	(565,000)	–	1,785,000	11.01.2006-10.07.2015	HK$0.159
02.01.2008	520,000	–	(200,000)	–	320,000	02.07.2008-01.01.2018	HK$0.492
12.01.2010	4,170,000	–	(710,000)	(435,000)	3,025,000	12.07.2010-11.01.2020	HK$2.200
08.10.2012	–	6,040,000	–	–	6,040,000	08.10.2013-07.10.2022	HK$4.996
Category III: Consultants							
02.06.2006	500,000	–	–	–	500,000	02.12.2006-01.06.2016	HK$0.175
02.01.2008	2,000,000	–	–	–	2,000,000	02.07.2008-01.01.2018	HK$0.492
26.11.2008	500,000	–	–	–	500,000	26.05.2009-25.11.2018	HK$0.383
20.12.2010	250,000	–	–	–	250,000	20.06.2011-19.12.2020	HK$3.750
	17,583,000	7,601,000	(2,849,000)	(435,000)	21,900,000		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Particulars of share options:

Date of Grant	Exercise period	Exercise price per share HK$
13.01.2003	13.07.2003-12.01.2013	0.405
25.06.2004	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 25.12.2004-24.06.2014 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 25.09.2005 – 24.06.2014	0.218
11.07.2005	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 11.01.2006-10.07.2015 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 11.10.2006 – 10.07.2015	0.159
02.06.2006	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007 – 01.06.2016	0.175
02.01.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009 – 01.01.2018	0.492
26.11.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 26.05.2009-25.11.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 26.02.2010 – 25.11.2018	0.383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Date of Grant	Exercise period		Exercise price per share HK$
25.09.2009	(i)	50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. from 25.03.2010 to 24.09.2019	1.076
	(ii)	Unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. from 25.12.2010 to 24.09.2019	
12.01.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010-11.01.2020	2.200
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011-11.01.2020	
06.09.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 06.03.2011-05.09.2020	2.990
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 06.12.2011 – 05.09.2020	
20.12.2010	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011-19.12.2020	3.750
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012-19.12.2020	
07.10.2011	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 07.04.2012-06.10.2021	2.526
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 07.01.2013-06.10.2021	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

Date of Grant	**Exercise period**		**Exercise price per share HK$**
20.12.2011	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2012-19.12.2021	2.666
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2013-19.12.2021	
08.10.2012	(i)	259,500 options exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013 – 07.10.2022	4.996
	(ii)	259,500 options exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014 – 07.10.2022	
	(iii)	1,160,000 options exercisable during the period from 08.10.2013 – 07.10.2022;	
	(iv)	2,230,000 options exercisable during the period from 08.10.2014 – 07.10.2022;	
	(v)	2,650,000 options exercisable during the period from 08.10.2015 – 07.10.2022.	
20.12.2012	(i)	50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2013- 19.12.2022	4.930
	(ii)	unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2014 – 19.12.2022	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Company *(continued)*

The following table summarised movements in the Company's share options during the year:

	Outstanding at 01.01.2012	During the year Granted	Exercised	Lapsed	Outstanding at 31.12.2012
Directors					
Lee Siu Fong	1,382,000	521,000	(915,000)	–	988,000
Leelalertsuphakun Wanee	919,000	519,000	(459,000)	–	979,000
Li Xiaoyi	1,382,000	521,000	–	–	1,903,000
Mauro Bove	1,300,000	–	–	–	1,300,000
Directors' total	4,983,000	1,561,000	(1,374,000)	–	5,170,000
Employees	9,350,000	6,040,000	(1,475,000)	(435,000)	13,480,000
Consultants	3,250,000	–	–	–	3,250,000
Grand total	17,583,000	7,601,000	(2,849,000)	(435,000)	21,900,000

The Group issues equity-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually become vested and adjusted for the effect of non market-based vesting conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. SHARE OPTIONS SCHEME *(continued)*

The fair value of the total options granted in the year measured as at the date of grant on 8 October 2012 was HK$16,359,859 and 20 December 2012 was HK$2,518,514. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility range of 59.40 to 68.11 per cent;

2. expected annual dividend yield range of 0.83 to 1.82 per cent;

3. the estimated expected life of the options granted during the year is 10 years; and

4. the quoted interest rate for the Exchange Fund Notes with maturity in 2020 were 0.76 per cent and 0.63 per cent respectively which are adopted to calculate the fair value of options granted on 8 October 2012 and 20 December 2012.

The fair value of the two share options granted at 8 October 2012 and 20 December 2012 were valuated by Messrs. Ascent Partners Valuation Service Limited, an independent professional valuer not connected to the Group. The valuations were derived by the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimated.

The Subsidiary – CVie Therapeutics Company Limited

A subsidiary of the Company, CVie Therapeutics Company Limited, also operates a share option scheme (the "CVie's Scheme"). The CVie's Scheme was adopted pursuant to a resolution on 5 November 2012 for the primary purpose of providing incentives to eligible employees of CVie Therapeutics Company Limited. The share option was granted on 30 November 2012 and will expire on 30 November 2022. Under the CVie's Scheme, the board of directors of CVie Therapeutics Company Limited may grant options to eligible employees and eligible grantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the CVie's Scheme was 440,000 (2011: nil), representing 4.63% (2011: nil) of the shares of CVie Therapeutics Company Limited in issued at that date. The total number of shares in respect of which options may be granted under the CVie's Scheme shall not exceed 500,000 shares of CVie Therapeutics Company Limited. The overall limit on the number of shares of CVie Therapeutics Company Limited which may be issued upon exercise of all outstanding options granted and yet to be exercised under the CVie scheme and any other share option schemes of CVie Therapeutics Company Limited must not exceed 30% of the shares of CVie Therapeutics Company Limited in issue from time to time, without prior approval from the shareholders of CVie Therapeutics Company Limited.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of CVie Therapeutics Company Limited, and will not be less than the fair value of each share of CVie Therapeutics Company Limited on the date of grant.

Details of the Company's Share Option Scheme are summarized as follow:

Date of grant	Outstanding at 01.01.2012	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2012	Exercise period	Fair value per option at grant date
Tranche 1							
30.11.2012	–	133,000	–	–	133,000	Note a	HK$0.8532
Tranche 2							
30.11.2012	–	267,000	–	–	267,000	Note b	HK$0.9475
Tranche 3							
30.11.2012	–	40,000	–	–	40,000	01.12.2014-30.11.2022	HK$0.9003
	–	440,000	–	–	440,000		

Note

a. upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

b. one year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

Particulars of share options:

Date of Grant	Exercise period		Exercise price per share HK$
Tranche 1 30.11.2012	(i)	133,000 options will be exercisable upon the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	1.628
Tranche 2 30.11.2012	(i)	267,000 options will be exercisable one year after the success completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	1.628
Tranche 3 30.11.2012	(i)	40,000 options will be exercisable during the period 01.12.2014-30.11.2022	1.628

The fair value of the total options granted in the year measured as at the date of grant on 30 November 2012 was HK$402,482. The following significant assumptions were used to derive the fair value using the Binominal model:

1. According to the management of the Company, the successful completion of Phase II study of either Rostafuroxin or Istaroxime is expected to happen on 30 June 2014.

2. The risk free rate is the yield of Hong Kong Sovereign Zero Coupon Bond with maturity matching the time to expiration of the share options as at the valuation date as obtained by means of linear interpolation of data from Bloomberg.

3. According to the management of the Company, no dividends were declared by CVie Therapeutics Company Limited for the previous year and it is expected that no dividends will be paid in the near future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

40. SHARE OPTIONS SCHEME *(continued)*

The Subsidiary – CVie Therapeutics Company Limited *(continued)*

4. The expected average volatility 59.097% is the historical volatility of the similar companies over the most recent period commensurate with the expected life of the share options and reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

5. CVie Therapeutics Company Limited has no history of issuing share options before, the expected volatility mentioned as above is the median exercise multiple of sample companies according to paper "Employee Stock Valuation with An Early Exercise Boundary".

The fair value of the three share options granted at 30 November 2012 was valuated by Messrs. Ascent Partners Valuation Service Limited, an independent professional valuer not connected to the Group. The valuations were derived by the Binominal Model. The Binominal Model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimated.

The Group has recognised an expense of HK$1,459,000 for the year ended 31 December 2012 (2011: HK$1,204,000) in relation to share options granted by the Company and CVie Therapeutics Company Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

41. PLEDGED OF ASSETS

At 31 December 2012, the Group has pledged bank deposit of HK$2,000,000 (2011: HK$2,002,951) to secure general banking facilities granted to the Group.

In addition, the Group's obligations under finance leases are secured by the lessors' title to the motor vehicles, which have a carrying amount of HK$1,533,531 (2011:HK$ 1,731,256).

42. RELATED PARTIES TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties. In the opinion of the directors, the following transactions arose in the ordinary course of the Group's business:

(a) Purchases from Sigma-Tau Group

Name of related party	Note	Nature of transactions	2012 HK$'000	2011 HK$'000
Sigma-Tau Group	(1)	Purchase of pharmaceutical product	57,622	43,060

Note:

1. Defiante Farmaceutica, S.A. is a shareholder of the Company which is also a member of Sigma-Tau Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

42. RELATED PARTIES TRANSACTIONS *(continued)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

THE GROUP	2012 HK$'000	2011 HK$'000
Short-term benefits	9,106	7,733
Share based payments	595	510
Retirement benefit	10,891	–
	20,592	8,243

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(c) Acquisition of licenses for Istaroxime and Rostafuroxin from Sigma-Tau and its associate

On 24 May 2012, licensing agreements with duration of three years were signed by CVie Therapeutics Company Limited ("CVie") and Sigma-Tau Group and its associate for the acquisition of licenses for Istaroxime and Rostafuroxin.

There was no payment to Sigma-Tau Group and its associate for the year ended 31 December 2012 under the licensing agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. RELATED PARTIES TRANSACTIONS *(continued)*

(d) Acquisition of license for Thymosin Beta 4 from RegeneRx Biopharmaceuticals, Inc. ("RegeneRx")

A licensing agreement with duration of three years was signed by Lee's Pharmaceutical (HK) Limited and RegeneRx on 12 July 2012 for the acquisition of license for Thymosin Beta 4 from RegeneRx. RegeneRx is an associate of a substantial shareholder of the Company, namely, Defiante Farmaceutica S.A. and the licensing agreement constituted a continuing connected transaction of the Company.

For the year ended 31 December 2012, license fee of total amount HK$3,120,000 was paid to RegeneRx in accordance with the licensing agreement which was equal to annual cap for 2012.

(e) Acquisition of license for Gimatecan Products from Sigma-Tau Group

On 23 November 2012, a licensing agreement with duration of three years was signed by Lee's Pharmaceutical (HK) Limited and Sigma-Tau Group for the acquisition of license for Gimatecan Products.

There was no payment to Sigma-Tau Group for the year ended 31 December 2012 under the licensing agreement.

(f) Shareholder Loan

The Group and Powder Pharmaceuticals Incorporated ("PPI") entered into the Shareholder Loan Agreement in March and July, pursuant to which, the Group agrees to advance the Shareholder Loan in the principal amount of US$500,000 and US$500,000 respectively (approximately HK$3,877,000 and HK$3,877,000 respectively) to PPI at an interest rate 4% to 6% per annum. The Term of the Loan shall be one year commencing from the Advance Date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

43. EVENTS AFTER THE REPORTING PERIOD

Shareholder Loan

On 4 January 2013, the Group and Powder Pharmaceuticals Incorporated ("PPI") entered into the Shareholder Loan Agreement, pursuant to which, the Group agrees to advance the Shareholder Loan in the principal amount of HK$8,000,000 to PPI at an interest rate 4% per annum. The Term of the Loan shall be one year commencing from the Advance Date.

Supplemental Agreement of CVie Therapeutics Company Limited

On 1 March 2013, the Group has signed a Supplemental Agreement in relation to a purchase agreement between CVie Therapeutics Company Limited ("CVie"), China Cardiovascular Focus Limited ("CCF") and Ivy Blue Holdings Limited ("IBHL"). The Special Tranche Issuance and Bridge Loan arrangement under the Purchase Agreement are removed and terminated. In addition, to expedite the Second Tranche Issuance under the Purchase Agreement, the Second Tranche Issuance is divided into stage 1 Series A-2 Shares (the "Stage 1 Series A-2 Shares"), which closing would no longer be pending for the achievement of the Milestone and the expiration of the Review Period as previously agreed under the Purchase Agreement, and stage 2 A-2 Shares (the "Stage 2 Series A-2 Shares"). IBHL shall subscribe 1,200,000 Stage 1 Series A-2 Shares at the purchase price of US$2.50 per share. Upon completion of the subscription of the Stage 1 Series A-2 Share (the "Stage 1 Closing"), the maximum amount under the Second Tranche Issuance under the Purchase Agreement will be reduced from US$6,000,000 to US$3,000,000, which will comprise the Stage 2 Series A-2 Shares.

At the date of 1 March 2013, CCF and IBHL held 79.95% and 20.05% of CVie shares. Immediately after Stage 1 Closing, the shareholding changed to 70.98% and 29.02% respectively. CVie will continue to be a subsidiary of the Group after Stage 1 Closing.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Lee's Pharmaceutical Holdings Limited (the "**Company**") will be held at Unit 102, Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Thursday, 9 May 2013 at 3:00 p.m. for the following purposes:

As ordinary business:

1. To receive, consider and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2012.

2. To declare the final dividend for the year ended 31 December 2012.

3. To re-elect the retiring directors and to authorise the board of directors (the "**Board**") to fix the directors' remuneration.

4. To re-appoint auditors and to authorise the Board to fix their remuneration.

As special business:

5. To consider and if thought fit, pass with or without modifications, the following resolutions as ordinary resolutions:

   A. "**THAT**

      (a) subject to paragraph 5A(c) below, a general mandate be and is hereby generally and unconditionally approved to the directors of the Company (the "**Directors**") to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;

      (b) the approval in this paragraph 5A(a) above shall authorise the Directors during the Relevant Period to make and grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

(c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph 5A(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the said approval shall be limited accordingly:

(i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory, applicable to the Company); or

(ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or

(iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of the dividend on the shares of the Company in accordance with the articles of association of the Company;

(d) for the purpose of this Resolution, "**Relevant Period**" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by its memorandum and articles of association of the Company or any applicable laws and regulations of the Cayman Islands to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

NOTICE OF ANNUAL GENERAL MEETING

B. "**THAT**

(a) subject to paragraph 5B(b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph 5B(c) of this Resolution) of all the powers of the Company to repurchase its own shares on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange on which the securities of the Company may be listed (as amended from time to time), be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph 5B(a) above during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph 5B(a) shall be limited accordingly; and

(c) for the purpose of this Resolution, "**Relevant Period**" shall have the same meaning as assigned to it under paragraph 5A(d) of this notice."

C. "**THAT** conditional upon Ordinary Resolutions 5A and 5B being passed, the general mandate granted to the Directors pursuant to Ordinary Resolution 5A to exercise the powers of the Company to allot, issue and otherwise deal with shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution 5B, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By order of the Board
Lee's Pharmaceutical Holdings Limited
Lee Siu Fong
Chairman

Hong Kong, 20 March 2013

NOTICE OF ANNUAL GENERAL MEETING

Notes:

(1) The register of members of the Company will be closed from Tuesday, 7 May 2013 to Thursday, 9 May 2013 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled to attend and vote at the meeting. In order to qualify for the right to attend and vote at the above meeting, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 6 May 2012.

(2) The register of members of the Company will be closed from Tuesday, 21 May 2013 to Thursday, 23 May 2013 (both days inclusive), during which period no transfer of shares will be effected for determining the shareholders who are entitled for the proposed final dividend for the year ended 31 December 2012. In order to qualify for the proposed final dividend for the year ended 31 December 2012, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 20 May 2013.

(3) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(4) A form of proxy is enclosed. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof. In the case of a joint share holding, the form of proxy may be signed by any one joint holder.

(5) With reference to the Ordinary Resolution sought in items 5A and 5B of this notice, the directors of the Company wish to state that they have no immediate plans to issue any new shares or to repurchase any existing shares of the Company. The explanatory statement required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the repurchase mandate, together with further details regarding items 3 and 5 of this notice as required by the Rules Governing the Listing of Securities on the Stock Exchange will be included in the circular, which will be despatched to shareholders of the Company together with 2012 Annual Report.